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Research Report on America's Cities

A TIME TO BUILD UP
A Survey of Cities About Housing Policy

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A TIME TO BUILD UP:
A Survey of Cities About Housing Policy

By

William R. Barnes
Research Director
National League of Cities

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of the National League of Cities Institute

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PREFACE

We are pleased to present A Time To Build Up: A Survey of Cities About Housing Policy to NLC's membership and to the public. This is a timely report on a topic of great importance to the nation's cities: the programs and policies needed to address the housing problems of low-income households.

The report is based on a survey of cities, undertaken by NLC in 1986. The survey was requested by NLC's Committee on Community and Economic Development as an aid to policy development. The Chairman of the Committee in 1985 and 1986 was Mayor James E. Roark of Charleston, West Virginia.

The author of the report and director of the survey project is William R. Barnes, Research Director for NLC.

The 444 cities that responded to the survey are quite clear about the need for a continuing Federal role in housing policy. The survey also reveals some clear evaluations of Federal programs and priorities for emphasis in Federal policy.

We believe these and other findings in the report can be useful contributions to the debate over housing authorizations in the Congress during 1987. We invite comments and questions about this study. We hope that it will help in the effort to clarify our nation's housing needs and to address those needs with adequate policies.

Alan Beals	William E. Davis, III
Executive Director	Director, Office of Policy Analysis and Development

AUTHOR'S ACKNOWLEDGEMENTS

I want to acknowledge and thank others who contributed to this project. First, officials and staff in 444 cities filled out the detailed questionnaire and returned it. Dr. Phillip Clay, of MIT, collaborated on the design of the survey and the initial data input; he will conduct his own analysis of the survey data for another study. Graduate research assistants David Aiken and Eva Orlebeke completed a variety of crucial tasks along the way. Hillel Sukenik provided help with the data input and analysis. Raymond Struyk and Barry Zigas read and commented on a draft of the report. Deborah Johnson typed the manuscript and managed it through numerous revisions.

William R. Barnes

A TIME TO BUILD UP

A Survey of Cities About Housing Policy

by

William R. Barnes

National League of Cities

February 1987

EXECUTIVE SUMMARY

In 1986, 444 cities responded to an NLC survey about housing problems and policies. These responses can be summarized under the headings of four questions, as follows.

(1) Which groups of people face severe housing problems?

A majority of cities report that homeless persons (58.0 percent of cities) and low income renters (53.4 percent) face "severe" problems locally.

(2) What would happen if all Federal housing assistance programs were terminated?

The big losers would be low income renters. Three out of four cities (76.1 percent) say that, if all Federal housing programs disappear, low income renters will be the group most in need of assistance.

Other groups that would be most in need of help if Federal aid ends are the elderly (in 47.3 percent of cities), female-headed households (40.3 percent), families with three or more children (39.0 percent), and the homeless (22.5 percent).

Nearly all cities (95 percent or more) predict that, if Federal housing aid were to end completely, neither their municipality nor any other source

will replace half or more of the funds needed to provide assistance to poor people.

(3) Are Federal low-income housing programs cost-effective?

All 21 programs assessed in the survey are regarded by majorities of cities as at least "moderately cost-effective" or better. Majorities of the cities that have a basis for judgment say that seven programs are "highly cost-effective":

Community Development Block Grant	84.7%
Section 8, Existing Housing	69.3%
Urban Development Action Grant	62.1%
Rental Rehabilitation Grants	61.2%
Public Housing Modernization	58.6%
Public Housing Operating Subsidy	55.7%
Section 202 (Elderly and Handicapped)	55.5%

From that same list of 21 Federal programs, each city respondent was asked to rank the three "most cost-effective" programs. These aggregated rankings manifest two patterns of results:

- First, two programs are seen as the "most cost-effective" by substantial percentages of cities. This reflects the flexibility and/or broad relevance of these two programs. The two programs that were rated the "most cost-effective" by the highest percentages of cities are the Community Development Block Grant (73.0 percent) and Section 8 Certificates for Existing Housing (47.1 percent). (In contrast, 5.0 percent of cities say that Housing Vouchers are among the "most cost-effective" programs.)

The next programs in the "most cost-effective" list are Rental Rehabilitation Grants (27.9 percent of cities) and Operating and/or Modernizing Public Housing units (23.7 percent).

- Second, cities spread a majority of their votes for the three "most cost-effective" programs broadly among programs other than CDBG and Section 8 Existing. This reflects the variety of local housing markets and circumstances: different programs are "most cost-effective" in different situations.

(4) What types of housing assistance should be emphasized in Federal policy?

The survey asked city officials to imagine that Federal housing assistance policies were to be completely revised and adequately funded. Putting aside programmatic details, what three types of housing activities should be the top priorities for emphasis in Federal housing policy? The activities that received these top priority votes from the highest percentages of cities are:

Rental assistance (money payments)	60.8%
Rehabilitation of single-family houses	52.9%
Rehabilitation of multi-family units (privately owned)	43.2%
Construction of new multi-family units	27.7%
Construction of new public housing units	20.7%

These findings lead to several conclusions regarding city officials' views about future Federal housing policy.

- Adequate Federal housing assistance, targeted to low- and moderate-income households, must be continued if the housing needs of these households are to be addressed.

- Existing programs are cost-effective and should be retained (until and unless appropriate and adequately-funded replacements are in place).

- Federal housing policy (1) should put special emphasis on direct rental assistance to poor people and on rehabilitation programs; and (2) should also reflect the variety of other local circumstances and needs---especially new multi-family construction, both publicly and privately owned---through a broad array of categorical programs and/or a housing block grant.

- Federal housing policy should not be reduced to any single dimension (e.g., housing vouchers).

CHAPTER I

INTRODUCTION

For Federal housing assistance programs, the years since 1980 have been a time to scale down. Budget authority for additional units has been cut drastically; the mix of the types of housing assistance provided has changed dramatically. In the near future, the expiration of housing assistance that was authorized in the 1970s raises the possibility that not only will Federal housing assistance not grow, but it will suffer absolute declines in the number of households assisted.

These trends in Federal housing policy do not reflect a consensus. They are the outcome of vigorous disagreement and intense struggle among the decision-makers in the Congress and the Administration and among interest groups. Federal housing policy has been, and continues to be, in considerable disarray. For example, since 1980, there has been only one authorization of Federal housing programs. Instead, programs continue year to year in appropriation bills. There has also been continuous strife over vital details of program operation and these arguments persist. Meanwhile, housing problems of low-income households remain.

In this situation, the National League of Cities decided to ask city officials for their views on various aspects of housing policy. NLC mailed a questionnaire to cities in the spring of 1986 and 444 cities responded.

These 444 cities say that Federal housing aid is crucial, that no other source will replace disappearing Federal assistance. It is not, in the view of these city officials, a time to tear down Federal programs; it is time to build them up. These officials also have clear views on the priorities that should be emphasized in a revitalized Federal housing policy.

The chapters that follow address four broad aspects of housing policy:

(1) Housing problems faced by various groups in cities;

(2) The ability of Federal programs to provide cost-effective solutions;

(3) Activities which local officials prescribe to address these problems; and

(4) Priorities for emphasis in Federal housing policy.

Each of these topics corresponds to a chapter in the body of the report.

Chapter II commences the analysis with a look at the severity of the housing situation for various groups of people in cities. Also included is a discussion of which of these groups would be most seriously affected if all Federal housing assistance were to disappear. Harking back to the U. S. Housing Act of 1949, this chapter tries to delineate those groups for whom the promise of "a decent home and a suitable living environment for every American family" remains unfulfilled and for whom declining Federal aid threatens to further reduce the likelihood of its fulfillment.

In the third chapter of the report, the topic is the evaluation of current Federal housing programs: which programs are most "cost-effective" in meeting housing needs in cities?

Chapter IV examines city officials' assessments of the relative importance of a series of housing-related activities in meeting housing needs. These activities are not specific programs, but rather types of programs (e.g. "construction of new multi-family units" or "weatherization").

In Chapter V, the discussion moves to Federal policy again, this time focusing on the activities which would be important to emphasize if Federal housing assistance were completely revised and adequately funded.

The emphasis in these chapters is on straightforward reporting of cities' answers to the survey questions. Descriptions of the 444 responding cities, the sample selection, and the total response frequencies to questions on the survey are provided in the Appendices.

CHAPTER II

PEOPLE WHO FACE HOUSING PROBLEMS

The survey asked respondents to think about the difficulty that each of various groups of people face in finding decent and affordable housing. Then, from among these groups, respondents selected the three groups in their particular city that would be most in need of assistance in the absence of Federal aid. This chapter reports the answers that the 444 responding cities gave to these questions.

1) Assessments of Groups' Housing Problems

The survey presented a list of twelve groups and asked respondents to assess the housing problems experienced by each as "severe," "moderate," or "few". (The groups are not mutually exclusive segments of a city's population; these are overlapping categories.) Table II-1 shows the percentages of cities which gave each assessment to each group.

In this table and other similar tables throughout the report, a fourth column is included on the far right, showing the number of responses to this particular question. It is this number which is the basis for calculations of percentages in each row. In the category of recent immigrants, for example, only 299 cities chose to provide an assessment; the remainder either left the question blank or said that it was "not applicable" to their city. The table indicates 33.1 percent of cities view immigrant's problems as "severe"; this is not 33.1 percent of all of the 444 cities in the survey, but rather 33.1 percent of the 299 cities which offered an opinion on this group.

TABLE II-1

SEVERITY OF PROBLEMS FOR VARIOUS GROUPS

Group	Severe	Moderate	Few	Number of Respondents (= 100%)
Homeless	58.0%	31.2%	10.8%	388
Low-Income Renters	53.4	40.5	6.1	440
Low-Income Homeowners	39.6	51.0	9.4	437
Families with 3 or More Children	39.1	47.1	13.8	435
Female-headed Households	36.3	50.2	13.5	438
Recent Immigrants	33.1	43.8	23.1	299
Handicapped Persons	22.6	57.3	20.0	424
Elderly	21.1	59.0	19.9	437
Blacks	16.3	49.6	34.1	405
Hispanics	12.7	52.3	35.0	346
Young Couples	7.2	45.8	47.0	432
Single Persons	5.0	34.3	60.8	423

The table manifests some fairly clear results: two groups' housing problems were rated "severe" by a majority of cities. Fifty-eight percent of cities that rated the problems of the homeless called these problems "severe." Fifty-three percent of those who rated low-income renters labelled that group's problems "severe."

Between 30 and 40 percent of cities said that a second cluster of groups--low-income homeowners, families with three or more children, female headed households, and recent immigrants--face "severe" problems with housing.

Many of the groups which cities did not place in the "severe" category were rated as having "moderate" problems. In fact, all groups--with the notable exceptions of young couples and single persons--were designated as having at least "moderate" problems by more than 75 percent of cities.

Young couples and single persons stand out as those groups which cities considered to have "few" problems. Forty-seven percent placed young couples in this category, and 60.8 percent did so for single persons. In addition, fewer than 10 percent of cities indicated "severe" problems for either group.

It is important to note that the highest percentages of cities gave "severe" ratings to categories that pertain to income and to housing tenure type (no house, renter, owner). The remaining categories pertain to characteristics of the person or the household. City officials tend to associate serious housing problems with the household's status in the housing market rather than with the demographic characteristics of the people.

2) Severe Problems by Region and City Size

Using the "severe" ratings from Table II-1 as indicators of major housing problems, the analysis in this section disaggregates those ratings by geographical location and by city size.

Table II-2 shows the frequency of "severe" responses for each group among the four Census regions. (See Table 3 in Appendix A for a list of which states are in which regions.)

TABLE II-2

SEVERE PROBLEMS--BY REGION

Group	North East	South	North Central	West
Homeless	60.8%	56.7%	49.4%	64.4%
Low-Income Renters	67.5	52.1	46.2	51.4
Low-Income Homeowners	43.9	43.6	34.3	36.4
Families with 3 or More Children	59.5	33.6	31.1	38.0
Female-headed Households	47.0	35.2	28.8	36.7
Recent Immigrants	39.4	36.3	15.9	37.8
Handicapped Persons	31.3	20.3	19.2	22.4
Elderly	28.9	17.9	12.5	27.3
Blacks	23.0	20.3	12.5	9.8
Hispanics	25.4	10.3	8.3	9.6
Young Couples	13.1	5.0	4.0	8.3
Single Persons	8.4	5.8	4.0	1.9

For all groups (except the homeless), cities in the Northeast are more likely than cities elsewhere to consider problems to be "severe." North Central cities, on the other hand, are less likely to label problems "severe" for almost all groups.

In terms of the order of groups in the ranking, however, there are few dramatic differences among the regional assessments of severe problems. In all four regions, first, the homeless, and second, low-income renters, were most frequently thought to experience "severe" problems. For both of these groups, 46 percent or more of respondents in each region rated their problems "severe."

Somewhat more variation in regional emphasis occurs within the subsequent cluster consisting of low-income homeowners, large families, female-headed households, and recent immigrants. Nearly 60 percent of Northeast cities said large families had severe problems while 38 percent or fewer respondents made the same assessment in each of the other regions. Only 15.9 percent of North Central cities said immigrant problems were severe, but the comparable figure is more than double in the other three regions.

For a subset of the groups, it is interesting to take a look at these kinds of differences, not only among regions but also among the nine Census divisions. Table II-3 compares the percentages of "severe" responses for low-income renters, large families, female-headed households, and recent immigrants. (See Table 3 in Appendix A for a list of which states are in which Census division.)

TABLE II-3

SELECTED SEVERE PROBLEMS, BY DIVISION

Division	Low Income Renters	Large Families	Famale-headed Households	Recent Immigrants
New England	74.3%	71.4%	71.4%	48.0%
Mid Atlantic	62.5	51.0	29.2	34.1
E. No. Central	48.6	31.9	27.8	16.7
W. No. Central	40.6	29.0	31.3	19.0
So. Atlantic	60.6	44.6	40.9	39.4
E. So. Central	38.5	16.0	34.6	9.1
W. So. Central	49.0	26.5	28.6	40.0
Mountain	28.1	32.3	22.6	24.0
Pacific	60.0	41.0	41.8	42.4
Total	53.4	39.1	36.3	33.1

The two divisions in the Northeast still show the highest numbers, with New England showing figures of over 70 percent for three of these groups.

The table suggests a general pattern of more severe problems for these groups in cities in the New England, Mid Atlantic, South Atlantic, and Pacific divisions. In these four areas, at least 60 percent of responding cities thought low-income renters had severe problems, while the remaining five divisions showed figures of less than 50 percent. Similarly, for large families, these four divisions had a minimum of 41 percent "severe" responses, and the other five had a maximum of 32.3 percent. Although the Mid-Atlantic shows an especially low figure (29.2%) for female-headed households facing "severe" problems, New England, the Pacific, and the South Atlantic remain the highest in this category.

In addition, the last column of the table clarifies the composition of the 33.1 percent of the respondents calling recent immigrants' problems "severe." The highest percentages of respondents are from cities in the New England, Mid-Atlantic, South Atlantic, West South Central, and Pacific divisions. Most of these areas contain significant sections of border or coastline. In the West, South Central division, which includes Texas, more cities said problems were severe for recent immigrants than for female-headed households or large families.

Table II-4 presents the percentages of cities that indicated "severe" problems for groups, separated according to population size of the cities.

In every case but one (young couples), a greater percentage of large cities indicated "severe" problems for each group than did small cities. However, certain problems--those of the homeless and low-income renters-- are most frequently designated "severe" by all cities, regardless of their size. In fact, the descending order of "severe" problems is roughly the same in all three size groups.

Generally, the figures for the medium-sized city respondents are roughly 5-10 percent lower than those for large cities, and the figures for small cities are again 5-10 percent lower than the medium-sized cities. Unlike the larger cities, medium and small cities more frequently rated the problems of low-income renters, large families, recent immigrants, and others as "moderate" rather than "severe".

One additional point to note is the relatively high number of large cities, nearly 40 percent, which thought that the handicapped confront severe problems finding adequate housing. By contrast, only 22.5 percent in medium-sized cities and 17.6 percent in small cities made this same judgment.

TABLE II-4

SEVERE PROBLEMS--BY POPULATION

Group	Small (Less than 50,000)	Medium (50,000-200,000	Large (Over 200,000)
Homeless	47.7%	62.9%	64.2%
Low-Income Renters	44.9	55.5	69.8
Low-Income Homeowners	39.1	38.4	46.2
Families with 3 or More Children	28.6	43.4	50.9
Female-Headed Households	30.1	38.0	47.2
Recent Immigrants	24.0	35.4	45.2
Handicapped Persons	17.6	22.5	38.8
Elderly	16.8	22.7	26.4
Blacks	11.7	17.9	22.9
Hispanics	8.1	13.0	26.3
Young Couples	7.0	8.0	3.9
Single Persons	3.3	3.2	17.6

Focusing on the small cities in the survey, we can divide this group into the 105 cities entitled to CDBG funding and the 54 which are not entitled. Few major differences emerge and these are displayed in Table II-5.

TABLE II-5

SEVERE PROBLEMS--ENTITLEMENT VS. NON-ENTITLEMENT SMALL CITIES

Groups	Entitlement	Non-entitlement
Homeless	43.7%	55.8%
Low-Income Renters	40.4	53.7
Low-Income Homeowners	36.9	43.4
Female-Headed Households	32.7	25.0
Families with 3 or More Children	31.1	23.5

The nonentitlement communities indicate severe problems for the first three groups--homeless, low-income renters, and low-income homeowners--with somewhat greater frequency than the entitlements. The case is reversed in assessments of the problems of female-headed households and large families.

In general, however, the order of the rankings are the same for both sets of cities and the magnitudes of the percentages are roughly similar. The severity of housing problems, as perceived by small city officials, is about the same regardless of whether the city does or does not have CDBG entitlement status.

When data from large cities are compared with additional data from urban counties, the evaluations of problems in the two types of jurisdictions (both with populations over 200,000) look similar.

For almost every group, the percentage of urban counties which calls its problems "severe" is slightly higher than the corresponding percentage of large cities. Table II-6 presents these comparisons for the five groups which were labelled "severe" by more than 50 percent of either the cities or counties. The percentages are based upon responses from the 53 large cities and the 47 urban counties that returned questionnaires.

TABLE II-6

SEVERE PROBLEMS--LARGE CITIES VS. URBAN COUNTIES

Groups	Large Cities	Urban Counties
Low-Income Renters	69.8%	72.3%
Homeless	64.2	69.6
Families with 3 or More Children	50.9	57.8
Female-Headed Households	47.2	68.1
Low-Income Homeowners	46.2	51.1

With the exception of a 20 point difference between 47.2 percent of large cities and 68.1 percent of counties that call problems "severe" for female-headed households, the large cities and urban counties have made roughly similar assessments of the problems these groups face.

3) A Note on the Data

The assessments of problems presented in the above tables and in the rest of this chapter reflect the judgments of knowledgeable city officials. These are perceptual data, not "hard" descriptions of conditions (although the respondents are probably acquainted with such information about their cities). These perceptions are very important because they are offered by decision-makers and, thus, most likely have a degree of influence on policy. The respondents also are in a position to provide insights about actual local conditions beyond the gloss of statistics.

On the other hand, variations within the data presented here may also reflect differences in the propensity to see problems as "severe", as well as differences in the nature of those problems. Overall, 72.3 percent of the 444 responding cities reported that four or less of the groups have "severe" problems; 27.7 percent of the cities said that five or more groups have "severe" problems. Focusing on the latter figure, Table II-7 shows the extent to which regional and population size groupings of respondents vary from this national average.

Among the regions, 36.9 percent of Northeast cities reported that five or more groups have "severe" problems. This figure is 9.2 percentage points above the national average of 27.7. At the other extreme, North Central cities are 9.6 percentage points below the average. Northeast cities, then, are much more likely to report many (five or more) "severe" problems than are North Central cities.

Among population size groupings, large cities (17.5 percentage points above the average) are much more likely than medium-sized cities (3.3 percentages above the average) and small cities (10.7 points below the average) to report many "severe" problems.

Do these differences reflect variations in housing problems or do they reflect variation in peoples' standards of evaluation? Or, what mixture of these two bases of variation do the data reflect? The short answer is that we do not know. Another answer is that some variation in standards of evaluation seems likely and the reader should be careful not to put too much emphasis on relatively small (say, less than 10 percent) differences among groups of cities. The most interesting answer, however, is that standards are a crucial element in determining the nature of problems and that, therefore, these informed perceptions are very strong indicators of local housing realities. The analyses here take into account the former caveats, but are mainly rooted in this latter view.

TABLE II-7

PERCENTAGES OF CITIES THAT REPORT 5 OR MORE "SEVERE" HOUSING PROBLEMS

	Percent of Cities	Number of Percentage Points Difference from National Average
National	27.7%	0
Northeast	36.9	+ 9.2
West	31.2	+ 3.5
South	26.6	- 1.1
North Central	18.1	- 9.6
Small	17.0	-10.7
Medium	31.0	+ 3.3
Large	45.2	+17.5

4) What Would Happen to These Groups if Federal Aid Disappeared?

The survey asked city officials to imagine a scenario in which all Federal housing assistance has disappeared. Table II-8 shows the frequency with which each group was indicated as a city's first, second, or third neediest in this hypothetical situation of no Federal housing aid.

The group that would suffer most from the disappearance of Federal aid is clearly low-income renters. Seventy-six percent of the cities indicated this group among their top three choices, and 40 percent made it their first choice.

TABLE II-8

NEEDIEST GROUPS IF FEDERAL AID ENDS

Group	1st, 2nd or 3rd Choice
Low-Income Renters	76.1% of Cities
Elderly	47.3
Female-Headed Households	40.3
Families with 3 or more Children	39.0
Low-Income Homeowners	35.1
Homeless	22.5
Handicapped	8.8
Blacks	6.8
Young Couples	4.7
Recent Immigrants	3.8
Hispanics	3.2
Single Persons	2.3
Other	2.7
No Response	7.5

After low-income renters (76.1%), the elderly (47.3%), and large families (39.0%), female-headed households (40.3%), and low-income owners (35.1%) are most frequently mentioned. The homeless are mentioned by 22.5 percent of respondents, and the other groups are mentioned by fewer than 10 percent.

These responses involved several different judgments by city officials who answered. First, what is the relative degree of housing need among the groups? This is similar to the views expressed in the data in Table II-1, but here the groups' needs are being ranked whereas, in the previous question, each group's needs were assessed independently. Second, to what extent are these groups now aided by Federal programs such that loss of the programs would affect the group directly?

The effect of this second judgment is most clearly seen in the reversal of the place in the rankings given to the elderly and the homeless in Table II-8 compared to Table II-1. The elderly are now aided by Federal programs in many cities and, thus, the loss of such programs would increase the housing problems the elderly face. Federal programs apparently are seen as benefitting homeless persons in fewer cities and, thus the loss of aid would affect them less. This results in the lower place given them in Table II-8.

TABLE II-9

NEEDIEST GROUPS IF FEDERAL AID ENDS--BY REGION

	North East	South	North Central	West
Low-Income Renters	77.4%	78.3%	75.2%	73.2%
Elderly	38.1	44.1	49.5	56.3
Female-Headed Households	29.8	39.9	44.8	44.6
Families with 3 or More Children	52.4	37.1	39.0	31.3
Low-Income Homeowners	29.8	40.6	37.1	30.4
Homeless	22.6	21.0	21.9	25.0

In every region, over 70 percent of cities indicated that low-income renters would be most in need if Federal aid ends. (See Table II-9.) Some variation in emphasis did occur, however, regarding the other groups. The elderly were most frequently a choice in the West (56.3%) and least often in the Northeast (38.1%). The Northeast cities were more likely than cities in other regions to select large families (52.4%) and less likely to select femaleheaded households (29.8%). In all four regions, the homeless were selected as most needy by only 20-25 percent of the cities.

Table II-10 presents a breakdown of the data in Table II-8 by population size. All three size groups agree (with percentages greater than 70 percent) that low-income renters would suffer most if Federal aid were terminated.

TABLE II-10

NEEDIEST GROUPS IF FEDERAL AID ENDS--BY POPULATION

	Small	Medium	Large
Low-Income Renters	74.2	76.7	79.2
Elderly	49.1	49.1	34.0
Female-Headed Households	37.7	40.9	45.3
Families with 3 or More Children	38.4	38.4	43.4
Low-Income Homeowners	43.4	31.0	28.3
Homeless	17.6	23.7	32.1

Small and medium-sized cities follow similar patterns, with the exception of a relatively greater emphasis on low-income homeowners in the small cities (43.4%). The large cities tended to choose both female-headed households (45.3%) and families with three or more children (43.4%) more frequently than the elderly (34.0%).

CHAPTER III

ASSESSMENTS OF FEDERAL HOUSING PROGRAMS

This chapter reports on the findings from survey questions that asked city officials about 1) their capacity to replace Federal funds for housing assistance, 2) how they rate 21 specific Federal housing programs as to "cost-effectiveness" and 3) which of these 21 Federal housing programs are the "most cost-effective". Breakdowns of these data by region and population size are presented, as appropriate.

City officials say that, as Federal housing aid declines, neither their city nor any other source will replace the lost funds for housing assistance to poor people.

Regarding Federal housing programs, cities that have some experience with them tend to rate them as cost-effective. Of 21 specific Federal programs that are evaluated in the survey, from 85 percent to 23 percent of cities that have a basis for judgment about each program say that it is "highly cost-effective". The greatest percentages of cities rated the Community Development Block Grant Program (84.7 percent) and the Section 8 Existing Housing Certificates (69.3 percent) as "highly cost-effective".

When asked to name the three "most cost-effective" Federal housing aid programs, by far the greatest proportions of cities include CDBG (73.0 percent) and Section 8 Existing Certificates (47.1) among their three choices. No other program received votes from more than 30 percent of the cities. The wide scattering of cities' votes for this third "most cost-effective program" clearly suggests that the effectiveness of programs is related to their appropriateness in given situations and that a variety of Federal aid programs is necessary to deal with the variety of housing situations in different cities.

1. Would other funds be found if Federal housing assistance were terminated?

In two separate ways, the survey asked city officials to indicate whether, in the absence of Federal aid, funds would be found to provide needed housing assistance. The question was asked first with regard to meeting the needs of groups that would be most in need of assistance if Federal aid disappeared and second, with regard to replacement of funds for programs that the city rates as most cost-effective.

As reported in Chapter II, the survey asked which three groups of people would be most in need of assistance if all Federal aid programs were terminated. Following that question, we asked whether, without Federal aid, the city could provide half or more of the assistance that these groups would need over the next five years. Four percent or less of the cities said that they would be able to provide half or more of the assistance needed.

The survey also asked cities to select the three "most cost-effective" Federal housing aid programs. (Details on these responses are provided later in this chapter.) For each of those three "most cost-effective" programs, we asked whether funding would likely be replaced from other sources if Federal aid were terminated. Two percent or less of the cities said that more than half of the funding for any of those three "most cost-effective" programs would be replaced from other sources. From 10 to 15 percent of the respondents said that something less than half of the funding would be replaced from other sources. From 83 to 88 percent of the respondents said that there would be "little or no replacement".

2. Assessments of 21 Federal Housing Aid Programs

The survey provided a list of 21 specific Federal housing aid programs. Respondents were asked to evaluate the "cost-effectiveness" of each program individually. The question read as follows:

> "Please assess the value of each of the Federal programs listed below. For each dollar spent on each program in your jurisdiction, which programs produced a relatively great benefit in meeting the housing needs of poor people in your city? Which show less effectiveness (or 'bang for the buck')? Suggestion: Imagine that your jurisdiction spends the same amount on each program and compare the programs according to the benefits they produce."

The question was posed this way to encourage respondents to ignore the sheer size of a program (the larger the program in money terms, the greater the impact) and to focus instead on the per dollar benefit. Respondents could rate the program as "highly cost-effective", "moderately cost-effective", or "not cost-effective". Or, respondents could indicate that this program was "not applicable" in their city and/or that they had "no basis for judgment in this jurisdiction". The results of this question are presented in Table III-1.

TABLE III-1

ASSESSMENTS OF 21 FEDERAL PROGRAMS

	Highly cost-effective; great benefit for each dollar spent	Moderately cost-effective; moderate benefit for each dollar spent	Not cost-effective; little benefit per dollar	Number of Respondents (N)
a. CDBG	84.7%	13.8%	1.5%	412
b. Section 8 - Existing Housing	69.3	29.0	1.7	411
c. Urban Development Action Grant Program	62.1	29.4	8.5	153
d. Rental Rehabilitation Grants	61.2	30.6	8.3	327
e. Public Housing Modernization Program	58.6	37.5	3.9	256
f. Public Housing Operating Subsidy Program	55.7	40.3	4.0	273
g. Section 202 (Elderly and Handicapped)	55.5	41.3	3.2	283
h. Section 8 - Rehabilitation Housing	48.6	44.4	7.0	286
i. HoDAG	45.1	46.2	8.8	91
j. Housing Vouchers	44.7	48.2	7.1	226
k. Farmers Home Administration Homeownership Program (Section 502)	44.6	37.5	17.9	56
l. Multi-family IDBs	43.7	45.9	10.4	183

	Highly cost-effective; great benefit for each dollar spent	Moderately cost-effective; moderate benefit for each dollar spent	Not cost-effective; little benefit per dollar	Number of Respondents (N)
m. Low-Income Public Housing Program (Construction)	43.6	44.7	11.7	257
n. Single Family MRBs	42.0	46.0	12.1	174
o. Rehabilitation Loan Program (Section 312)	41.5	43.8	14.7	265
p. FmHA Rural Rental Housing Program (Section 515)	40.6	43.8	15.6	32
q. Flexible Subsidy Program (Troubled Public Housing Projects	40.0	43.6	16.4	55
r. Urban Homesteading Program	36.6	43.0	20.4	93
s. Section 8 - Newly Constructed Housing	32.8	50.2	17.0	271
t. Section 236 (Multi-family Rental)	25.9	60.4	13.7	197
u. Section 235 and 235 Revised (Single-Family)	23.4	61.7	14.9	188
v. Other (Specifiy) ________________	85.0	15.0	0.0	20

Two caveats are important for understanding these responses. First, since respondents had the option of saying that the program was "not applicable" in their city, the number of cities evaluating each program varies. The percentage of respondents who say, for example, that a given program is "highly cost-effective" is the percentage of those who evaluated that program, not the percentage of the total of 444 cities who responded to the overall survey. This approach makes it more likely that the judgments reported here are based on reasonably full information about each program. The number of respondents on which the percentages are based for each program is provided in the last column of Table III-1. In a few cases, that number is so small that the findings should be treated very tentatively.

The second caveat that the reader should note is that respondents to this question were evaluating each program separately; that is, they were not asked here to rank the programs as to their cost-effectiveness, but rather to use the same benefit per dollar criteria in evaluating each program separately. (A subsequent question in the survey, reported below, asked the respondents to rank the top three programs.)

There is clearly a tendency among the city respondents to give favorable marks to programs that they have experience with. All of the programs received either a "highly cost-effective" or a "moderately cost-effective" rating in huge majorities of the cities. No program received more "not cost-effective" ratings then "highly cost-effective" ratings. No more than 20 percent of the cities rated any program "not cost-effective".

Table III-1 also shows that from 10 to 20 percent of the responding cities view 11 of the 21 programs as "not cost-effective". All of these 11 programs also receive less than majority "highly cost-effective" ratings, but the two rankings are not precisely inversely related. (Disaggregating these data by region or city size proves not to be useful, because the numbers in each cell of the breakdowns are too small to be a basis for reliable analysis.)

Seven of the twenty-one programs received "highly cost-effective" ratings from a majority or more of the respondents. Those seven programs are:

CDBG	84.7%
Section 8 Existing Housing	69.3%
UDAG Programs	62.1%
Rental Rehabilitation Grants	61.2%
Public Housing Modernization	58.6%
Public Housing Operating Subsidy	55.7%
Section 202 (Elderly and Handicapped)	55.5%

Tables III-2 and III-3 break down the "highly cost-effective" ratings for these seven programs, by city size and by region. As to variations by population, cities under 50,000 are slightly less likely to give "highly cost-effective" ratings than cities over 50,000. As to regional variations, cities in the South and especially in the West are distinctly less favorable to the UDAG program than cities in the Northeast and North Central. (These judgments reflect the regional differences in UDAG awards over the last few years, since the amount of total grant applications began to exceed the amounts of money available under the UDAG program.)

TABLE III-2

"HIGHLY COST-EFFECTIVE" PROGRAMS, BY CITY SIZE

	Total	Less Than 50,000	50,000 - 200,000	Over 200,000
a. CDBG	84.7%	82.4%	86.7%	82.4%
b. Section 8 Existing	69.3	62.5	73.5	69.2
c. UDAG	62.1	56.8	67.1	58.3
d. Rental Rehab Grants	61.2	64.2	58.6	64.7
e. Public Housing Modernization	58.6	50.6	62.7	62.8
f. Public Housing Operating Subsidy	55.7	49.5	59.3	58.1
g. Section 202	55.5	52.3	58.1	53.2

TABLE III-3

"HIGHLY COST-EFFECTIVE" PROGRAMS, BY REGION

	Total	North East	South	North Central	West
a. CDBG	84.7%	85.9%	85.6%	83.7%	83.7%
b. Section 8 Existing	69.3	70.0	71.9	65.7	69.2
c. UDAG	62.1	73.9	57.7	69.7	36.4
d. Rental Rehab Grants	61.2	63.3	63.4	64.2	52.7
e. Public Housing Modernization	58.6	51.7	65.7	58.5	50.0
f. Public Housing Operating Subsidy	55.7	59.3	54.2	55.9	54.2
g. Section 202	55.5	50.0	61.7	48.0	59.1

Also, Southern cities are more likely to give high ratings to the public housing modernization program than are cities in the Northeast and the West. This Southern emphasis on the public housing program will reappear in data presented later in the report.

Overall, however, the effect of Tables III-2 and III-3 is to exhibit the relative consensus of the cities, across regions and across population sizes, on assessments of these seven programs. In short, the degree of regional and population size variation is not very great.

The data also allow us to compare, within the category of cities with populations under 50,000, the views of small cities that are entitled to CDBG and those that are not. This comparison is presented for the same seven Federal programs in Table III-4. While entitlement small cities are more likely to give high ratings to the CDBG program than non-entitlement small cities, the percentage of the latter is still very high: 72.2 percent. Furthermore, compared with entitlement small cities, non-entitlement small cities are less likely to give "highly cost-effective" ratings to the Section 8 Program (50.0 to 67.3 percent), Rental Rehab Grants (45.5 to 69.9 percent), and the Public Housing Operating Subsidy program (37.9 to 54.5 percent). On the other hand, non-entitlement small cities are more enthusiastic about the UDAG program (66.7 percent) than are entitlement small cities (51.7 percent).

TABLE III-4

"HIGHLY COST-EFFECTIVE" PROGRAMS, SMALL CITIES

	Small Entitled	Small Not Entitled
a. CDBG	86.0%	72.2%
b. Section 8 Existing	67.3	50.0
c. UDAG	51.7	66.7
d. Rental Rehab Grants	69.9	45.5
e. Public Housing Modernization	51.6	47.8
f. Public Housing Operating Subsidy	54.5	37.9
g. Section 202	54.1	48.1

Another comparison of interest is between large cities (those with populations of over 200,000) and urban counties (defined as CDBG entitlement counties with populations over 200,000). (The urban county data is **not** a part of the totals presented in previous tables. The county data is used here to provide comparison to the large city data.) As shown in Table III-5, urban counties are slightly less likely to give the highest effectiveness rating to CDBG. Urban counties are dramatically less favorable to UDAG, Public Housing Moderization and the Rental Rehabilitation Grant programs than are large cities. On the other hand, urban counties are somewhat more favorable to Section 8 Existing Certificates and the Section 202 program than are large cities.

III-5

"HIGHLY COST-EFFECTIVE" PROGRAMS, LARGE CITY/URBAN COUNTY COMPARISONS

		Large Cities (Over 200,000)	Urban Counties
a.	CDBG	82.4%	72.3%
b.	Section 8 Existing	69.2	76.1
c.	UDAG	58.3	20.0
d.	Rental Rehab Grants	64.7	45.2
e.	Public Housing Modernization	62.8	38.5
f.	Public Housing Operating Subsidy	58.1	51.9
g.	Section 202	53.2	65.0

3) Ranking Federal programs: the three "most cost-effective"

The survey asked respondents to choose (from the same 21 programs in the list reported in the previous section) the first, second, and third "most cost-effective" programs. In the previous question, respondents were asked to try to use a single standard of evaluation for each of the programs, but the question did not ask the respondent to indicate any comparison or ranking among the programs. In this question, however, each respondent could designate no more than three of the programs as being "most cost-effective". From the previous question, therefore, we get a ranking based on the percentage of cities that said a given program was "highly cost-effective": the ranking was implicit in the multiple answers to the question. In this question, the ranking is explicit: each city respondent chose three programs, at most, and thus did not choose the other 18.

For purposes of analysis, then, the most significant arrangement of the responses to this question is the percentage of cities that chose each program as either their first, second, or third "most cost-effective" selection. This analysis assumes that the most significant distance between the programs in the ranking is the distance between the first, second, and third on the one hand, (i.e., the three programs that were chosen by the respondent) and all the others, on the other hand (i.e., all the other programs that were not selected as first, second, or third "most cost-effective").

Table III-6 presents the frequencies for this aggregated set of responses.

Far and away the cities' top choice as the "most cost-effective" Federal program for housing assistance is the Community Development Block Grant program. CDBG received either the first, second or third choice vote of 73 percent of the 444 cities responding to the survey. Just as clearly, the second "most cost-effective" Federal housing program, according to these 444 cities, is the Section 8 Existing Housing Certificate Program: 47.1 percent of the cities gave this program either their first, second, or third choice. The percentages of cities that rate the next two programs as one of their "most cost-effective" are very close: 27.9 percent for the Rental Rehabilitation Grants and 23.7 percent for the programs that

TABLE III-6

		% of Cities Selecting Items as First, Second, or Third Choice
a.	CDBG	73.0%
b.	Section 8 - Existing Housing	47.1
c.	Rental Rehabilitation Grants	27.9
d.	Public Housing Operating Subsidy and/or Modernization Programs	23.7
e.	Section 202 (Elderly and Handicapped)	14.6
f.	Section 8 - Rehabilitation Housing	12.4
g.	Low-Income Public Housing Program (Construction)	12.2
h.	Urban Development Action Grant Program	11.0
i.	Section 8 - Newly Constructed Housing	10.4
j.	Rehabilitation Loan Program (Section 312)	9.2
k.	Multi-family IDBs	7.0
l.	Single Family MRBs	5.2
m.	Housing Vouchers	5.0
n.	Section 235 and 235 Revised (Single-Family)	2.9
o.	Urban Homesteading Program	2.7
p.	Section 236 (Multi-family Rental)	2.5
q.	HoDAG	2.0
r.	Farmers Home Administration Homeownership Program (Section 502)	1.1
s.	Flexible Subsidy Program (Troubled Public Housing Projects)	0.9
t.	FmHA Rural Rental Housing Program (Section 515)	0.9
u.	Other (Specify) __________	1.6

address the maintenance and improvement of the existing stock of public housing.*

The remainder of the cities' votes for first, second and third "most cost-effective" programs are spread across all of the rest of the programs. None of these other programs received the votes of more than 15 percent of the cities.

This assessment by cities produces a striking consensus on the top two "most cost-effective" programs and it also demonstrates a wide spread of opinion regarding the primacy of all of the remaining programs in the list. Three out of four cities agree on the primary importance of CDBG; almost two out of four cities agree on the importance of Section 8. But less than about one out of four cities agree on the primacy of any other program: different cities see different programs as the "most cost-effective" for their community. The latter finding reflects the same spread of opinion, the same view that different programs are effective in different situations, that we found in the data reported in the previous section (see Table III-1) and that will be presented in Chapter IV.

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*The category of "Operating and/or Modernization" for Public Housing is actually a combination of two programs that are listed separately in the survey questionnaire (see Appendix B.) The rationale for the combination is that these are really two aspects of the effort to maintain and improve the public housing stock and, thus, may be considered one "program". (New construction of public housing might also have been combined to create a whole "public housing program" category, but, it seemed reasonable to distinguish between new construction and the existing stock of public housing for these purposes.) Table III-6 reports that 23.7 percent of the 444 responding cities selected either Operating Subsidy or Modernization or both of them as one of their three "most cost-effective" programs. The later classifications by region and city size are based on the same data analysis.

The clear-cut selection of the top two "most cost-effective" programs suggests that either these provide enough flexibility and local control to be able to address the problems of many localities (CDBG), or they are targeted to exactly a set of problems that are shared by many localities (Section 8 Existing is a direct rent assistance program). Analysis of this finding will be further illuminated by data in the next chapter regarding the housing assistance activities that cities think are most important.

The top ranking given to these two programs and the wide spread of the other votes among an array of Federal programs are patterns that consistently appear even when the data is broken down by region and by population size. Table III-7 presents these regional and population size breakdowns for the top four programs in Table III-6. Looking down the columns of the table, there is no variation of much more than 15 percent among the regions or among the size groups. Furthermore, there are only two cases where (reading across the rows of Table III-7) the order of the four programs changes: in the South and in large cities, greater percentages of officials rate the public housing stock programs higher than the Rental Rehabilitation program.

There are, nonetheless, several variations of interest in Table III-7. As to CDBG, small cities are slightly less likely to see the program as one of their "most cost-effective", but two out of three say that it is. Non-entitlement small cities (which are included in the "small city" category here; see also Table III-9) are distinctly less enthusiastic about CDBG than are entitlement small cities. The same pattern holds for small cities' view of Section 8. Small cities and Western cities are less inclined than other cities to rate the Rental Rehabilitation program highly.

The greatest emphasis on the public housing stock (operating and modernization programs) comes from large cities and Southern cities, where that stock is most concentrated.

TABLE III-7

MOST COST-EFFECTIVE PROGRAMS BY REGION AND CITY POPULATION

	CDBG	Section 8 Existing	Rental Rehab	Oper./Mod. Public Housing
Total	73.0%	47.1%	27.9%	23.7%
Region				
Northeast	78.6	53.6	32.1	21.4
South	69.9	42.7	27.3	33.6
North Central	72.4	42.9	33.3	21.0
West	73.2	51.8	20.5	15.2
Population				
Less than 50,000	66.7	38.4	30.8	22.0
50,000 - 200,000	77.2	53.9	27.2	22.8
Over 200,000	73.6	43.4	22.6	32.1

Two other comparisons are useful here (although the public housing program data are not available for these tables.) First, Table III-8 compares the responses from large cities (those over 200,000 in population) with a separate data set from urban counties. Although urban counties are slightly more likely to rank Section 8 Existing as one of their three "most cost-effective" programs than large cities (51.1 percent to 43.4 percent, respectively), the percentages are virtually the same for urban counties as for large cities with regard to CDBG and the Rental Rehabilitation program.

TABLE III-8

MOST COST-EFFECTIVE PROGRAMS LARGE CITY/URBAN COUNTY COMPARISON

	CDBG	Section 8 Existing	Rental Rehab
Large Cities	73.6	43.4	22.6
Urban Counties	70.2	51.1	25.5

A second additional comparison is between small cities (under 50,000 population) that are entitled to receive CDBG funds and those that are not entitled (and that, therefore, may only participate in the discretionary, usually state-run, small cities CDBG programs). This comparison is presented in Table III-9. Entitlement small cities exhibit percentages that are very much like larger cities for each of the three programs.

TABLE III-9

MOST COST-EFFECTIVE PROGRAMS, SMALL CITIES

	CDBG	Section 8 Existing	Rental Rehab
Small Cities-Total	66.7	38.4	30.8
Entitlement	80.9	41.8	37.1
Non-Entitlement	38.9	31.5	18.6

Non-entitlement small cities, on the other hand, are far less likely to rank any of these three programs as one of their three most cost-effective. Nonetheless, their relative rankings (that is, which program comes in first, second, and third) are the same as for entitlement small cities and for cities overall.

The nonentitlement small cities also differ from all other cities in that 28.6 percent of the possible votes for first, second or third "most cost-effective" programs were not used. That is, in 28.6 percent of their opportunities to identify a first, second or third "most cost-effective" program, non-entitlement small cities did not make a selection.* The comparable percentage for the total sample of 444 cities is 7.8 percent. These results may tell us that--faced with a request to highlight specific programs--these city officials say that relatively few of the Federal aid programs provide outstandingly cost-effective housing assistance to their communities.

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* This high "no answer" rate is specific to this question. The "no answer" rates are much lower for questions that appear later in the survey questionnaire.

CHAPTER IV

WHAT TYPES OF HOUSING ASSISTANCE ACTIVITIES ARE NEEDED?

Putting aside the particular characteristics of current housing assistance programs, what types of activities do city officials think are needed in order to alleviate the housing problems of poor people? This chapter reports on the answers given to this question by the 444 responding cities. In sum, the activities that are "very important" in the largest proportion of cities are housing rehabilitation for both single and multi-family units and direct money aid to low-income renters. In addition, substantial proportions of cities say that many different housing assistance activities are "very important" in addressing the housing needs of poor people.

These two findings--the consensus on the importance of rehabilitation and rental assistance and an array of other housing assistance activities that are "very important" in the largest proportion of cities--are consistent with the findings reported in Chapter 3 regarding the cost effectiveness of Federal programs. That is, the emphases on various rehabilitation activities and on rental assistance are similar to the high ratings given to CDBG and Section 8 Existing Certificates. The spreads of emphasis across all other activities or programs are also similar. It seems likely that this pattern of responses is an underlying structure to the answers to the survey given by the 444 cities.

1) Assessments of the Need for Various Housing Assistance Activities

The survey asked city officials to think more generally about housing policy and programs; it asked them to think at the level of "activities" beyond the specific characteristics of Federal, state or local programs. The purpose of this set of questions was to get beyond the advantages and disadvantages of current or proposed programs and to deal more fundamentally with the issue of the kinds of approaches that are required to address low-income housing problems. The 444 responding cities gave some fairly clear answers to this fundamental question.

The survey listed 13 "activities" that "might alleviate the housing problems of poor people". One question asked the respondent to "indicate how important each of these activities would be in addressing the housing needs of low and moderate income households in your city . . . regardless of whether your city now has these activities". In other words, the respondents were being asked to sketch out the dimensions of a housing policy for their cities. It should be noted that the question has to do with the nature of activities that should be be undertaken; disregarded here is the issue of whether the funding and policy guidance for such activities comes from the Federal, state or local levels of government.

The list of 13 activities and the frequencies of the cities' responses are provided in Table IV-1. The 13 activities and the data are listed in declining order according to the frequency of responses to the "very important" rating.

The pattern of these assessments seems fairly clear. First, by far the greatest percentage of cities (79.9 percent) say that rental assistance (that is, direct money payments) would be a "very important activity" in addressing the housing needs of poor

TABLE IV-1

ACTIVITIES NEEDED TO ALLEVIATE LOW-INCOME HOUSING PROBLEMS

	Very Important	Moderately Important	Not Important	Number of Respondents (N)
a. Rental assistance (money payments)	79.9%	18.8%	1.4%	436
b. Rehabilitation of single-family homes	63.1	31.9	5.0	439
c. Rehab. of multi-family units (privately owned)	60.0	31.5	8.5	435
d. Construction of new multi-family units	44.5	38.7	16.7	431
e. Emergency repairs	42.4	47.5	10.1	434
f. Providing emergency shelters	40.6	41.3	18.1	414
g. Direct assistance to to help people own housing units	39.4	46.8	13.8	419
h. Construction of new public housing units	35.3	36.7	28.1	417
i. Rehab of public housing units	33.5	35.7	30.8	412
j. Weatherization	32.6	48.9	18.6	436
k. Site assembly	26.2	41.2	32.6	386
l. Construction of new single-family units	22.9	49.8	27.3	428
m. Fair housing programs	19.4	52.2	28.4	423

people in their cities. Second, at the next level down in terms of the percentage of cities giving a "very important" rating, are the two rehabilitation activities (single family--63.1 percent, multi-family--60 percent). Third, the remaining 10 activities were rated as "very important" by proportions of the responding cities ranging from 44.5 percent to 19.4 percent.

These three levels of the "very important" ratings fall quite simply from the data. That is, there is about a 16 percent drop in the percentage of cities between rental assistance and the next activity (single-family rehab). Then there is another 16 percent drop between the third-ranked activity and the fourth (that is, between multi-family rehab and multi-family new construction). There is no such large drop in the percentages at any other point in the remaining rankings of the activities.

There is a tendency for respondents in questions like this one to chose the middle term (in this case "moderately") if they are at all unsure about a judgment. Thus, it is interesting to look not only at the "very important" column, but also at the "not important" column where cities are saying that these activities would not be useful in addressing the housing needs of low and moderate income households in their cities. The analysis of the "very important" column is mirrored here: that is, less than 10 percent of the respondents said that rental assistance and single- and multi-family rehabilitation would be "not important". Percentages ranging from 10 to nearly 33 percent, however, said that the remaining 10 activities would be "not important". In only three cases, however, does the "not important" percentage exceed or approximate the "very important" percentage. Those three cases are: site assembly, construction of new single-family units, and fair housing programs. These contrasting views do not cancel each other out; the survey simply reveals that there are fewer cities for which the activity is "very important" than there are for which it is "not important". The finding is a good illustration of the general point that local problems vary and, therefore, solutions must also vary.

The findings from Table IV-1 might be summarized again as follows. In eight out of ten cities, rental assistance would be important in the creation of an effective housing policy. In six out of ten cities, rehabilitation of single-family and multi-family units would be "very important". The ten other activities would be "very important" in smaller, but still substantial proportions of cities.

Notable for its absence from the top three activities is new construction of any sort. Although there are quite substantial percentages of cities that say that new multi-family construction (44.5 percent) and new public housing construction (35.3 percent) are "very important", new single-family construction is rated as "very important" in only 22.9 percent of cities. These findings cannot be used to conclude that new construction has no place in low-income housing policy, but they do suggest that rehabilitation is more broadly applicable than new construction. (A somewhat different analysis of related data, presented in Chapter V, combines new construction of both publicly- and privately-owned multi-family units.)

2) Assessments, by Region and City Size

The Tables IV-2 through IV-7 present breakdowns of the data presented in Table IV-1: by population, by region, for small cities (CDBG entitlement versus non-entitlement), and for comparison of large cities and urban county data.

Perhaps the most notable conclusion from analysis of these tables is that there is not indeed very much variation across regions and across city size groupings in cities' assessment of the relative importance of these activities. While the following tables and text focus on specific and interesting variations that do exist, the reader should see these specific differences against the background of what appears to be a fairly solid consensus on most of the questions.

Table IV-2 presents the differences among small, medium and large cities. With regard to only 6 of the 13 activities, there is a difference (in the percent of small, medium or large cities that assess the activity as "very important") of more than 10 percentage points. The largest difference in this regard is that 64.7 percent of large cities say that rehabilitation of public housing units would be "very important", whereas only 28 and 29 percent of small and medium cities agree.

Roughly speaking, Table IV-2 shows that--in those cases where there is significant variation by city size--the nature of the variation is that, as city size increases, greater proportions of the cities say that each activity is "very important" for solving housing problems. Again, this finding must be seen in the context of the other major finding, which is that in the case of 7 of the 13 activities there is no significant variation by city size.

Table IV-3 focuses on the variations by city size in the negative assessments of the importance of the 13 activities: activities that cities report would not be important in alleviating low-income housing problems. In only 5 of the 13 cases is there significant variation (10 or more percentage points) among city size groupings. In two cases, these negative assessments mirror the patterns (in Table IV-2) of the "very important" ratings. Thus, large cities are much more inclined to say that providing emergency shelters and rehabilitation of public housing units are "very important" activities. Conversely, large cities are much less inclined then small or medium size cities to say that these are "not important".

TABLE IV-2

ACTIVITIES THAT WOULD BE "VERY IMPORTANT" TO ALLEVIATE LOW INCOME HOUSING PROBLEMS

BY POPULATION SIZE

	Small (Under 50,000)	Medium (50,000-200,000)	Large (Over 200,000)	Total (All Cities)
a. Rental assistance (money payments)	70.6%	83.5%	90.6%	79.8%
b. Rehabilitation of single-family homes	64.3	62.1	64.2	63.1
c. Rehab. of multi-family units (privately owned)	58.3	58.9	69.8	60.0
d. Construction of new multi-family units	38.2	46.7	53.8	44.5
e. Emergency repairs	36.8	45.4	45.3	42.4
f. Providing emergency shelters	32.7	43.3	52.0	40.6
g. Direct assistance to help people own housing units	41.1	35.7	50.0	39.4
h. Construction of new public housing units	31.5	36.9	39.2	35.3
i. Rehab of public housing units	28.1	29.8	64.7	33.5
j. Weatherization	31.8	33.5	30.8	32.6
k. Site assembly	23.7	27.5	27.1	26.2
l. Construction of new single-family units	22.1	23.9	20.8	22.9
m. Fair housing programs	20.8	17.3	24.5	19.4

TABLE IV-3

ACITIVITES THAT WOULD NOT BE IMPORTANT TO ALLEVIATE LOW INCOME HOUSING PROBLEMS

BY POPULATION SIZE
(VARIATIONS OF 10 OR MORE PERCENTAGE POINTS)

	Small	Medium	Large	Total
f. Providing emergency shelters	23.8%	16.1%	10.0%	18.1%
i. Rehab of public housing units	28.8	36.3	13.7	30.8
k. Site assembly	40.5	30.9	18.8	32.6
l. Construction of new single-family units	28.9	28.8	17.0	27.3
m. Fair housing programs	33.6	27.1	18.4	28.4

Regional variations in the "very important" responses are presented in Table IV-4. The greatest difference occurs with regard to weatherization: there is a 28.7 percent difference between cities in the West (at 17 percent) and those in the North Central region at (45.7 percent).

Looking at the general patterns in Table IV-4, we can say that Northeastern cities are more inclined then cities in other regions to say that any given housing activity is "very important" in solving low income housing problems; and that cities in the West are less inclined than those in the other regions to say this. While this generalization may help the reader and the analyst acquire an orientation toward the data in Table IV-4, it is important to say again that the degree of variation in some of these cases is quite small.

TABLE IV-4

ACTIVITIES THAT WOULD BE "VERY IMPORTANT" TO ALLEVIATE LOW INCOME HOUSING PROBLEMS

BY REGION

	North East	South	North Central	West	Total
a. Rental assistance (money payments)	81.9	77.9	80.0	80.6	79.8
b. Rehabilitation of single-family homes	49.4	75.2	71.4	50.0	63.1
c. Rehab. of multi-family units (privately owned)	67.5	52.1	68.0	56.9	60.0
d. Construction of new multi-family units	53.0	46.0	36.9	43.5	44.5
e. Emergency repairs	37.8	47.5	51.9	29.9	42.4
f. Providing emergency shelters	43.8	43.8	32.7	41.5	40.6
g. Direct assistance to help people own housing units	48.8	47.4	28.3	31.7	39.4
h. Construction of new public housing units	36.6	45.3	24.0	31.6	35.3
i. Rehab of public housing units	38.6	44.9	26.0	20.6	33.5
j. Weatherization	35.7	32.6	45.7	17.0	32.6
k. Site assembly	37.5	25.6	19.6	25.0	26.2
l. Construction of new single-family units	32.5	28.3	19.4	11.5	22.9
m. Fair housing programs	24.7	21.3	21.2	11.2	19.4

More interesting than these general regional tendencies are some of the specific differences that probably reflect the nature of housing problems among the regions. For example, there is a pattern in the differing mixes of rehabilitation needs in the four regions. With regard to single-family rehabilitation, three quarters of Southern and North Central cities say that it is "very important", but only half of Northeastern and Western cities say that it is "very important". On the other hand, with regard to multi-family units, 68 percent of cities in the Northeast and North Central regions say that it is "very important", while 52.1 and 56.9 percent of cities say this in the South and the West, respectively. To look at this mix in each of the regions it is necessary first, to remind ourselves that all of these percentages are significantly high. Keeping that clearly in mind, we can label the regions as "high" and "less high" as regards single-family or multi-family rehabilitation and obtain combinations as exhibited in Table-4a.

TABLE IV-4a

MIXES OF REHABILITAITON NEEDS, BY REGION

	High Multi-Family Rehab	**Less High Multi-Family Rehab**
High Single Rehab	North Central	South
Less High Single Rehab	North east	West

There is no national uniformity: each region--and indeed each city--has its own mix of rehabilitation needs. This lack of uniformity underlies the spread of "cost effectiveness" ratings (reported in Chapter III) and--in combination with the strong attraction of a program that allows much local autonomy--the very high degree of consensus on the value of CDBG.

Table IV-5 presents the regional variation of the "not important" ratings. It presents data only for those activities where the variation is 10 or more percentage points among the regions. As with the population variations, to some extent these negative ratings are the mirror image of the "very important" ratings. Thus, for example, the North Central and Western cities give significantly higher percentages of "not important" ratings to rehabilitation of public housing units (40.6 and 46.4 percent respectively), and they give significantly lower percentages of "very important" ratings (26.0 and 20.6 percent respectively in Table IV-4). The opposite pattern is mirrored in the two tables for the Northeast and the South regarding rehabilitation of public housing units. Similarly, the North Central and Western cities give higher percentages of "not important" ratings to construction of new single-family units than do the Northeast and South and this mirrors the lower North Central and Western percentages of "very important" ratings for that activity.

Regarding emergency shelters, the percentages found in both Table IV-4 and IV-5 show virtual unanimity among the Northeast, South and West. The North Central cities are less likely to say that providing emergency shelters is "very important" and correspondingly they are more likely to say that it is "not important".

TABLE IV-5

ACTIVITIES THAT WOULD NOT BE IMPORTANT TO ALLEVIATE LOW INCOME HOUSING PROBLEMS

BY REGION
(VARIATIONS OF 10 OR MORE PERCENTAGE POINTS)

	North East	South	North Central	West	Total
d. Construction of new multi-family units	8.4	17.5	20.4	18.5	16.7
f. Providing emergency shelters	13.8	19.2	26.5	12.3	18.1
g. Direct assistance to help people own housing units	8.5	12.4	20.2	13.9	13.8
h. Construction of new public housing units	30.5	19.0	37.0	29.6	28.1
i. Rehab of public housing units	25.3	16.2	40.6	46.4	30.8
j. Weatherization	13.1	16.3	7.6	36.8	18.6
k. Site assembly	22.2	32.2	41.2	32.3	32.6
l. Construction of new single-family units	19.3	23.2	31.1	35.6	27.3

Regarding construction of new public housing units, the percentage of Southern cities that say that it is "very important" is the highest (45.3 percent) of the four regions; the percentage of North Central cities is the lowest (24.0 percent); and the Northeast and West are very similar (at 36.6 and 31.6 percent respectively). Mirroring that pattern, the percentage of Southern cities that say that new public housing units are "not important" is lowest (19.0 percent); the percentage in the North Central region is highest (37.0 percent); and the Northeast and West are virtually the same (30.5 and 29.6 percent).

Another line of analysis is the comparison of small cities that are entitled to Community Development Block Grant funds by formula versus small cities that are not entitled. In Chapter 3, we noted that non- entitlement cities were less likely than entitlement cities to give high ratings to existing Federal programs. Table IV-6 presents the data regarding the activities for which there is a difference between these two types of small cities of 10 or more percentages points. While these four differences may be statistically significant and the difference regarding rental assistance is quite large, the predominant finding here is that, in the case of 9 of the 13 activities, the difference between entitlement and nonentitlement small cities is small and no greater than 10 percentage points.

This finding reinforces the conclusion reached at the end of the previous chapter. If the needs of non-entitlement small cities seem to be roughly the same as the needs of entitlement small cities, then the striking difference between them as regards the adequacy of Federal housing assistance is all the more persuasive as a basis for arguing that these small non-entitlement communities are a special locus of negligence in the operation of Federal housing assistance.

Table IV-7 presents the comparison between large cities' and urban counties' assessments regarding the four of the 13 activities for which there a difference between large cities and urban counties of 10 percentage points or more. (The reader is reminded that the urban county data is not a part of the 444 respondent data base which is the foundation of all other tables and data analysis.)

TABLE IV-6

ACTIVITIES THAT WOULD BE VERY IMPORTANT TO ALLEVIATE LOW INCOME HOUSING PROBLEMS

SMALL CITIES
(VARIATIONS OF 10 OR MORE PERCENTAGE POINTS)

	Not Entitled	Entitled	All Small Cities
a. Rental assistance (money payments)	78.1	54.2	70.6
b. Rehabilitation of single-family homes	68.3	56.0	64.3
f. Providing emergency shelters	36.4	25.0	32.7
i. Rehab of public housing units	33.7	16.7	28.1

The greatest difference is the strong emphasis among large cities on rehabilitation of public housing units (64.7 percent) and the relative lack of interest by urban counties in this (25.6 percent). There is a slightly greater tendency for large cities to say that rehabilitation activities are important than there is in urban counties. The reverse is true with the regard to the construction of new multi-family units. Beyond these differences--which probably reflect the condition of the housing stock and housing markets in older, central areas versus newer outer areas--large cities and urban counties assess the importance of most other housing assistance activities in much the same ways.

TABLE IV-7

ACTIVITIES THAT WOULD BE VERY IMPORTANT TO ALLEVIATE LOW INCOME HOUSING PROBLEMS

LARGE CITIES VERSUS URBAN COUNTIES
(VARIATIONS OF 10 OR MORE PERCENTAGE POINTS)

	Large Cities	Urban Counties	Total
b. Rehabilitation of single-family homes	64.2	53.2	59.0
c. Rehab. of multi-family units (privately owned)	69.8	53.2	62.0
d. Construction of new multi-family units	53.8	72.3	62.6
i. Rehab of public housing units	64.7	25.6	46.8

CHAPTER V

PRIORITIES FOR FEDERAL HOUSING POLICY

1) Priorities

Following the question regarding the importance of various housing assistance activities (described in the previous chapter), the survey asked city officials to use that same list of activities to rank their importance for the Federal role in housing policy. Specifically, the question instructed respondents to "assume that Federal housing assistance is going to be completely revised and adequately funded. Which of the activities listed would be your city's top three priorities for emphasis in such a revised housing policy?"

In the previous question, respondents evaluated each activity separately. The rankings that result, as shown in the tables in Chapter IV are implicit rankings deriving from varying percentages of cities that said that each of the activities is "very important". In this next question, city officials were explicitly asked to compare the importance of each of these activities with all others and specifically to rank the activities first, second, and third as opposed to all of the others. For purposes of analysis, the largest distance between the activities in each city's ranking is the distance between the first, second, and third choices, taken together on the one hand, and all of the others on the other hand. Therefore, in the analyses of these data that follow, the focus is on the accumulation of the first, second, and third choices taken together as the basis for reporting cities' priorities for a revised Federal housing policy.

Table V-1 presents the aggregate frequencies of the cities' answers to this question. Each of the percentages in the table are the percent of the 444 cities that chose this activity as the first, second, or third choice.

TABLE V-I

PRIORITIES FOR A NEW FEDERAL HOUSING POLICY

		% of Cities Selecting Items as First, Second, or Third Choice
a.	Rental assistance (money payments)	60.8%
b.	Rehabilitation of single-family homes	52.9
c.	Rehab. of multi-family units (privately owned)	43.2
d.	Construction of new multi-family units	27.7
e.	Construction of new public housing units	20.7
f.	Direct assistance to help people own housing units	18.5
g.	Rehab. of public housing units	14.9
h.	Construction of new single-family units	12.2
i.	Emergency repairs	11.0
j.	Site assembly	7.4
k.	Providing emergency Shelters	7.4
l.	Weatherization	5.6
m.	Fair housing programs	2.0

Cities' top priorities for emphasis emerge fairly clearly from the table. The first priority is rental assistance (60.8); the second is rehabilitation of single-family homes (52.9 percent); and the third priority is rehabilitation of multi-family units (43.2 percent). These are the same three activities that top the ranking in Table IV-1. Activities that are seen as "very important" for addressing local low-income housing problems are also suggested as the primary emphases for Federal housing policy.

In the ranking, these three priorities are followed by a gap of about 16 percent, the largest single gap between the activities in the entire list. The fourth most frequently selected priority is construction of new multi-family units which is followed, after a gap of 7 percentage points by construction of new public housing units (20.7 percent). From "new multi-family" on down through the rest of the list, there is no gap between the activities of more than 7 percentage points.

Thus, the first major finding from the table is the clarity of the top three priorities: rental assistance, single-family rehabilitation and multi-family rehabilitation. A total of 52.3 percent of the cities' "votes"* as to priorities for Federal housing policy were given to these three activities.

A second major finding from the table also seems fairly clear: Federal support for a variety of other activities is also seen as crucial by some cities. The cities spread the other half of their "votes" across the 10 other activities. Although the orders of magnitude become quite small, there is no logical place in the remainder of the ranking list to cut it off.

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*Each of the 444 city respondents could "vote" for a first, second, and third priority. Thus, there is a potential total of 1,332 votes (3 x 444).

2) New Construction

Another interesting aspect of the table concerns the topic of new construction. Compared to rehabilitation, there is a relative lack of emphasis by city officials here on construction of new units. Moreover, there is approximately as much emphasis on new public housing construction as there is on construction of multi-family privately-owned units. Providing new single family units is a priority for only 12.2 percent of cities. The category of new multi-family units, however, is split into two "activities" in the list. This split--although it follows the conventional distinction between privately-owned and public housing units--understates the extent to which city officials are reporting a need for newly constructed multi-family units for low-income households. When these two activities are recalculated, the result is that 42.0 percent of cities place one or the other or both among their priorities for emphasis in Federal policy. (The two percentages in Table V-1 cannot be simply added together because some cities would be counted twice.) Recalculating the same combination of public and private units for the rehabilitation category, the result is that 53.2 percent of cities rank this category among their priorities. The list in Table V-1 is thus changed somewhat:

Rental assistance	60.8% of cities
Rehabilitation, multi	53.2
Rehabilitation, single	52.9
New construction, multi	42.0

Multi-family new construction is still fourth on the list (the two sub-categories are fourth and fifth in Table V-1) but at a higher level. And, beyond these four activities, there is a drop of more than twenty percentage points to the next item in the list.

Regionally, North Central cities are least likely (31.0 percent) to make public/private new multi-family construction a priority. Northeast cities are most likely (44.0 percent) and the West (37.9

percent) and South (39.3 percent) come between. Cities of different sizes all support this as a priority with similar frequency: small--37.7 percent, medium--44.8 percent, and large--41.5 percent.

These recalculated categories are not used in the subsequent tables in this chapter because the loss of the public/private distinction dilutes the programmatic implications of the findings. Also, most cities chose either publicy-owned or privately-owned multi-family activities, suggesting that the respondents do not see these as interchangeable.

3) Priorities by Region and City Size

In the tables and the associated text on the following pages, the data in Table V-1 are disaggregated by region and city size. The focus of these analyses is on differences among regions and city size groupings. Overall, however, there is a striking degree of similarity among cities.

There also is very little variation in the degree to which cities in different regions or cities of different sizes concentrated their priority "votes" on the three top activities: rent assistance, single-family rehabilitation and multi-family rehabilitation. The index of this concentration for all cities is 52.3 percent. Table V-2 presents the indices of concentration for cities by region and by city size and shows a high degree of consensus on the priorities for emphasis in a revised Federal housing policy. This is the context in which the more specific variations in subsequent tables should be understood.

Table V-3 disaggregates the priority choices by the four major Census regions. As regards rental assistance, a lower percentage (53.6 percent) of Northeast cities give it priority as compared to the West where the highest percent of cities give it priority (67.0 percent). The variations among the regions with regard to rehabilitation of single-family and multi-family units is analogous

TABLE V-2

INDICES OF CONCENTRATION

	% of Cities Priority Votes Concentrated on Rental Assistance, Rehab-Single, and Rehab-Multi
All Cities	52.3%
Region	
North East	48.0
South	52.0
North Central	56.2
West	52.4
City Size	
Under 50,000	49.3
50,000 - 200,000	54.2
Over 200,000	53.5
Small Cities	
Entitlement	50.8
Non-entitlement	46.3
Large Jurisdictions	
Large Cities	53.5
Urban Counties	40.4

to the pattern reported in the previous chapter. (See Table IV-4a for a summary of that pattern.) Northeast cities are more interested than cities in other regions in the construction of new multi-family units. Paralleling the findings in Chapter III and in Chapter IV, Southern cities show more emphasis on public housing, both in new construction and rehabilitation, than do cities in other regions.

City size does not seem to have very much effect on selection of priorities for a revised Federal housing policy. Table V-4 presents this data. The most significant difference among the size groups of cities occurs with regard to the rental assistance activity: small cities (49.7 percent) are much less likely to give priority to this activity then are any of the cities over 50,000.

Large cities are more likely than other cities to give priority to the rehabilitation of multi-family units (52.8 percent) and to rehabilitation of public housing units (26.4 percent). There are no other differences of more than ten percentage points among the size groups.

TABLE V-3

PRIORITIES FOR FEDERAL HOUSING POLICY, BY REGION

		% of All Cities Selecting Items as First, Second or Third Choice	North East	South	North Central	West
a.	Rental assistance (money payments)	60.8%	53.6%	62.2%	58.1%	67.0%
b.	Rehabilitation of single-family homes	52.9	40.5	60.8	60.0	45.5
c.	Rehab. of multi-family units (privately owned)	43.2	50.0	32.9	50.5	44.6
d.	Construction of new multi-family units	27.7	36.9	23.8	23.8	29.5
e.	Construction of new public housing units	20.7	17.9	31.5	11.4	17.9
f.	Direct assistance to help people own housing units	18.5	23.8	18.9	18.1	14.3
g.	Rehab. of public housing units	14.9	14.3	19.6	15.2	8.9
h.	Construction of new single-family units	12.2	17.9	10.5	10.5	11.6
i.	Emergency repairs	11.0	9.5	11.2	12.4	10.7
j.	Site assembly	7.4	7.1	4.9	5.7	12.5
k.	Providing emergency shelters	7.4	3.6	4.2	6.7	15.2
l.	Weatherization	5.6	3.6	5.6	9.5	3.6
m.	Fair housing programs	2.0	2.4	2.1	2.9	0.9

TABLE V-4

PRIORITIES FOR A NEW FEDERAL HOUSING POLICY, BY CITY SIZE

		% of All Cities Selecting Items as First, Second, or Third Choice	Under 50,000	50,000-200,000	Over 200,000
a.	Rental assistance (money payments)	60.8%	49.7%	68.5%	60.4%
b.	Rehabilitation of single-family homes	52.9	55.3	52.6	47.2
c.	Rehabilitation of multi-family units (privately owned)	43.2	42.8	41.4	52.8
d.	Construction of new multi-family units	27.7	24.5	29.3	30.2
e.	Construction of new public housing units	20.7	20.8	20.7	20.8
f.	Direct assistance to help people own housing untis	18.5	22.6	16.8	13.2
g.	Rehabilitation of public housing units	14.9	17.0	10.8	26.4
h.	Construction of new single-family units	12.2	15.1	9.9	13.2
i.	Emergency repairs	11.0	12.6	10.3	9.4
j.	Site assembly	7.4	8.8	7.8	1.9
l.	Weatherization	5.6	6.9	6.0	0.0
m.	Fair housing programs	2.0	1.9	2.6	0.0

Within the category of small cities (under 50,000), the data allow us to compare cities that are entitled to CDBG funds and cities that are not entitled. Table V-5 presents this comparison for the top six activities in the priority ranking. Entitled cities are more likely to give priority to the rehabilitation of single-family homes. Cities that are not CDBG-entitled are more likely to give emphasis to direct assistance to help people own their own homes. Beyond these two differences, there are no variations of more than ten percentage points between entitled and non-entitled small cities as to the priorities for a new Federal housing policy.

Table V-6 presents a comparison between large cities (over 200,000) and urban counties. There is a striking difference between these two types of jurisdictions regarding multi-family units. The percentage of each which give priority to rehabilitation and construction are approximately reversed. The reversal probably reflects the extent to which, in large cities, city officials are dealing with multi-family structures already in place while, in urban counties, officials are dealing with a situation in which land is available for multi-family units that are much in demand for in-migrants. Urban counties also place less emphasis on rehabilitation of single family houses and of public housing units than do large cities.

TABLE V-5

PRIORITIES FOR A NEW FEDERAL HOUSING POLICY: SMALL CITIES

	Entitled	Not Entitled
a. Rental assistance (money payments)	49.6%	50.0%
b. Rehabilitation of single-family homes	60.0	46.3
c. Rehabilitation of multi-family units (privately owned)	42.8	42.6
d. Construction of new multi-family units	25.7	22.3
e. Construction of new public housing units	21.0	20.4
f. Direct assistance to help people own housing units	18.1	31.4

TABLE V-6

PRIORITIES FOR A NEW FEDERAL HOUSING POLICY: LARGE CITY/URBAN COUNTY COMPARISON

	Large Cities	Urban Counties
a. Rental assistance (money payments)	60.4%	55.3%
b. Rehabilitation of single-family homes	47.2	38.3
c. Rehabilitation of multi-family units (privately owned)	52.8	27.7
d. Construction of new multi-family units	30.2	49.0
e. Construction of new public housing units	20.8	27.6
f. Rehabilitation of public housing units	26.4	10.7
g. Construction of new single-family units	13.2	17.0

APPENDICES

APPENDIX A

THE RESEARCH PROCESS AND THE SAMPLE

Research Process

In March 1986, NLC sent a survey questionnaire to 940 communities. The purpose of the survey was to gather current information on three specific questions:

(1) Which groups of people face housing problems?

(2) How do city officials evaluate the effectiveness of existing Federal programs?

(3) What kinds of activities do city officials think are necessary to address current housing problems of poor people?

The survey questionnaire had four major sections, A-D, covering (A) housing problems and possible solutions, (B) existing housing programs, (C) structure of local housing administration, and (D) additional comments related to particular local innovations and policy priorities. This report focuses on the first two sections of the questionnaire and incorporates additional relevant information from the other sections.

When we selected the group of cities to survey, we first decided to send questionnaires to all those cities with populations of more than 50,000. Since we also wanted to sample cities with populations of less than 50,000, we chose two groups among these smaller cities: (1) all those communities entitled to receive Community Development Block Grant (CDBG) funds and (2) a sample of small communities which are not entitled. Finally, we also decided to send questionnaires to the set of all urban counties which are CDBG entitled (and have a population of 200,000 and over); the thought was that data from these counties would contribute to characterizations of large metropolitan areas.

In March 1986, the survey was mailed to 940 jurisdictions which emerged from these initial specifications. Since all cities over 50,000 are by definition CDBG-entitled, the list turned out to consist of three convenient groups:

(1) the 707 cities of all sizes listed by HUD as CDBG entitlement communities for FY 1985;

(2) the sample of 150 non-entitlement small cities; and

(3) the 107 urban counties listed by HUD as CDBG entitlement communities for FY 1985.

The samples of entitlement communities, both cities and urban counties, were straightforward. Lists were simply drawn from HUD's Directory of Allocations for Fiscal Years 1980-1985.

For the non-entitlement small cities, the selection process was slightly more complicated since there are thousands of small cities. A list of NLC member cities which are also non-entitlements was available; under the assumption that this list was not biased in any relevant way, we randomly selected a group of 150 small nonentitlement cities distributed evenly over the four basic geographical regions used in the survey. In the end, the selection yielded 37 cities each from the Northeast, North Central, and South regions and 39 cities from the West, for a total of 150 nonentitlement communities.

Surveys were mailed to the mayor or manager in each city, with a request that he or she complete the questionnaire or have another knowledgeable person complete it. The intention was that the questions would be answered by a city official whom the chief executive felt to be a well-informed spokesperson.

In April, a follow-up memorandum with a second questionnaire was mailed to all cities which had not yet responded. By mid-June, we had received a total of 491 returns from 388 entitlement cities, 56 non-entitlement cities, and 47 entitlement urban counties.

Profile of the Respondents

The response rate for the survey was 51.5 percent overall. (See Table I-I)

TABLE I-I

RESPONDENTS--BY CATEGORIES IN THE RESEARCH SAMPLE

	Number of Questionnaires Sent	Number Returned	Percent Returned
Cities:	857	444	51.8%
Entitlement	707	388	54.9
Non-entitlement	150	56	37.3
Urban Counties	107	47	43.9
Total	954	491	51.5

The 444 responses from cities constitute the primary data base for this study. The urban county responses are not a part of that 444 data base. The 47 urban county responses are used throughout the report as a comparison with the large cities (which are a part of the 444).

The next several tables present further description of the responding communities. Table I-2 shows the respondents by region.

TABLE I-2

RESPONDENTS BY REGION

	Number of Jurisdictions	Percent of Respondents
Northeast	91	18.5%
South	163	33.2
North Central	113	23.0
West	124	25.3
Total	491	100.0%

In addition to these four regions, the Census Bureau also uses nine "divisions" to look at characteristics of different sections of the country. Table I-3 shows how the states are grouped into these divisions. Analysis and cross-tabulations in this report rely primarily on the broader regions with mention of divisions where appropriate.

TABLE I-3

REGIONS AND DIVISIONS

Northeast Region

- New England Division
  - Maine
  - New Hampshire
  - Vermont
  - Massachusetts
  - Rhode Island
  - Connecticut
- Mid-Atlantic
  - New York
  - New Jersey
  - Pennsylvania
  - Puerto Rico

North Central Region

- East North Central
  - Ohio
  - Indiana
  - Illinois
  - Michigan
  - Wisconsin
- West North Central
  - Minnesota
  - Iowa
  - Missouri
  - North Dakota
  - South Dakota
  - Nebraska
  - Kansas

South Region

- South Atlantic
  - Delaware
  - Maryland
  - District of Columbia
  - Virginia
  - West Virginia
  - North Carolina
  - South Carolina
  - Georgia
  - Florida
- East South Central
  - Kentucky
  - Tennessee
  - Alabama
  - Mississippi
- West South Central
  - Arkansas
  - Louisiana
  - Oklahoma
  - Texas

West Region

- Mountain
  - Montana
  - Idaho
  - Wyoming
  - Colorado
  - New Mexico
  - Arizona
  - Utah
  - Nevada
- Pacific
  - Washington
  - Oregon
  - California
  - Alaska
  - Hawaii

Table I-4 presents a profile of responding cities based on differences in population size.

TABLE I-4

RESPONDENTS BY POPULATION CATEGORIES

Population	Number of Cities	Percent of Respondents
Small	**159**	**35.8%**
Less than 10,000	15	3.4
10,000-19,999	21	4.7
20,000-49,999	123	27.7
Medium	**232**	**52.3**
50,000-99,999	152	34.2
100,000-199,999	80	18.0
Large	**53**	**11.9**
200,000-499,999	32	7.2
500,000 or more	21	4.7
Total	**444**	**100.0%**

Of the 73 cities with populations over 200,000, 53 responded to the survey; in this report, these are classified as "large" cities. Cities between 50,000 and 199,999 are classified as "medium", and all those less than 50,000 are "small". The analyses in the report rely on these three categories.

In order to enrich the description of the spectrum of population size, two supplementary types of analysis are also provided. Among the small cities, a distinction can be made between those with CDBG entitlement status and those without. Of 159 small cities which submitted responses, 105 are entitled and the remaining 54 are non-entitled. The interesting differences between these two groups are highlighted throughout the report. At the other end of the size spectrum, the second type of supplementary analysis is a comparison between those cities in the large population category and the urban counties. There are 53 large cities and 47 urban counties among the survey responses. Both kinds of jurisdictions have populations of over 200,000, and both are entitled to CDBG funds. Again, this comparison is included where it enhances the description of results.

The next table, Table I-5, shows the distribution of respondents by city type. The sample was weighted towards the "central city" category by virtue of the fact that all central cities of an MSA are qualified as entitlement cities by definition.

TABLE I-5

RESPONDENTS BY CITY TYPE

	Number of Jurisdictions	Percent of Respondents
Central Cities	238	48.5%
Suburbs	138	28.1
Non-metropolitan	68	13.8
Urban Counties	47	9.6

Finally, to complete the picture of respondents, Table I-6 displays the different types of city officials who filled out the questionnaire.

TABLE I-6

RESPONDENTS BY POSITION IN LOCAL GOVERNMENT

Position	Number of Respondents	Percent of Respondents
Mayor	43	8.8%
Council Member	2	.4
City Commissioner	2	.4
City Manager	30	6.1
Member of Mayor's or Manager's Staff	44	9.0
City Department Head	176	35.8
Other	194	39.5

FREQUENCY DATA FROM SURVEY

"HOUSING PROBLEMS IN AMERICA'S CITIES"

NATIONAL LEAGUE OF CITIES
1986

This document presents the original survey questions and the frequencies (in percentages) of the respondents' answers. Frequencies are a percent of the number of respondents who answered that specific question (e.g., N = 399). The total number of cities that responded to the survey is 444. In cases where long lists of items are presented, the items have been re-arranged into descending order of frequencies in the first column. Data for some questions in the survey are not presented here, because they allowed open-ended answers and are thus difficult to summarize, or because the question is not treated in the text of this report.

Characteristics of The 444 Responding Cities

1. Type of City

	Percent	Number
Central City	53.6%	238
Suburban City	31.1	138
Non-metropolitan City	15.3	68

2. Population

	Percent	Number
Less than 10,000	3.4%	15
10,000 to 19,999	4.7	21
20,000 to 49,999	27.7	123
50,000 to 99,999	34.2	152
100,000 to 199,999	18.0	80
200,000 to 499,999	7.2	32
500,000 or more	4.7	21

4. Region

	Percent	Number
Northeast	18.9%	84
South	32.2	143
North Central	23.6	105
West	25.2	112

5. CDBG Entitlement Status

	Percent	Number
Entitled	87.4%	388
Nonentitlement	12.6	56

1. For people in each of the following groups in your city, how severe are the problems they face in finding housing that is decent, appropriate, and affordable?

	Face Severe Problems	Face Moderate Problems	Face Few Problems	Number of Respondents (N)
a. Homeless people	58.0%	31.2%	10.8%	388
b. Low income renters	53.4	40.5	6.1	440
c. Low income homeowners	39.6	51.0	9.4	437
d. Families with 3 or more children	39.1	47.1	13.8	435
e. Female-headed households	36.3	50.2	13.5	438
f. Recent immigrants	33.1	43.8	23.1	299
g. Handicapped persons	22.6	57.3	20.0	424
h. Elderly	21.1	59.0	19.9	437
i. Blacks	16.3	49.6	34.1	405
j. Hispanics	12.7	52.3	35.0	346
k. Young couples	7.2	45.8	47.0	432
l. Single persons	5.0	34.3	60.8	423
m. Other ________________	57.0	31.4	11.6	86

2. This question has several parts and it refers back to your answers to the previous question. It asks you to imagine that all Federal housing assistance has disappeared.

Assume that no Federal housing assistance is available.

(a) Which three of the above groups of the low and moderate income population would be most in need of assistance in your city? (N = 444 for each of the first three columns. N = 444 for each row in the fourth column.)

	First Choice	Second Choice	Third Choice	% of Cities Selecting Items as First Second, or Third Choice
a. Low income renters	40.1%	23.0%	13.1%	76.1%
b. Elderly	18.5	16.4	23.0	47.3
c. Families with 3 or more children	13.3	13.1	12.6	39.0
d. Female-headed households	8.1	16.4	12.4	40.3
e. Low income homeowners	7.2	14.6	13.3	35.1
f. Homeless people	4.7	6.3	11.5	22.5
g. Blacks	1.4	2.5	2.9	6.8
h. Handicapped persons	0.9	1.8	6.1	8.8
i. Young couples	0.9	2.0	1.8	4.7
j. Recent immigrants	0.7	1.8	1.4	3.8
k. Hispanics	0.5	0.9	1.8	3.2
l. Single persons	0.0	0.5	1.8	2.3
m. Other ________________	1.4	0.0	1.4	3.6
n. No response	2.5	1.4	3.6	7.5

(b) Now please indicate the most appropriate general ways of addressing the housing problems of these three groups most in need in your city (from previous question.)

(c) Next please indicate whether your city--from whatever sources other than Federal--could provide half or more of the needed assistance over the next five years.

Groups		Forms of Assistance: Make more units available	Forms of Assistance: Preserve existing housing/ prevent displacement	Forms of Assistance: Provide money to make units affordable	Forms of Assistance: Help overcome discrimination	Without Federal aid city could provide half or more of assistance needed
First:	N = 444	60.8%	56.1%	71.2%	10.6%	3.6%
Second:	N = 444	56.3	56.3	69.4	12.8	3.4
Third:	N = 444	57.2	55.0	63.1	17.1	4.1

3. Following are several categories of activities that might alleviate the housing problems of poor people. The mix of activities needed will vary among cities.

Regardless of whether your city now has these activities, please indicate how important each of these activities would be, in your opinion, in addressing the housing needs of low and moderate income households in your city.

	Very Important	Moderately Important	Not Important	Number of Respondents (N)
a. Rental assistance (money payments)	79.9%	18.8%	1.4%	436
b. Rehabilitation of single-family homes	63.1	31.9	5.0	439
c. Rehab. of multi-family units (privately owned)	60.0	31.5	8.5	435
d. Construction of new multi-family units	44.5	38.7	16.7	431
e. Emergency repairs	42.4	47.5	10.1	434
f. Providing emergency shelters	40.6	41.3	18.1	414

		Very Important	Moderately Important	Not Important	Number of Respondents (N)
g.	Direct assistance to help people own housing units	39.4%	46.8%	13.8%	419
h.	Construction of new public housing units	35.3	36.7	28.1	417
i.	Rehab of public housing units	33.5	35.7	30.8	412
j.	Weatherization	32.6	48.9	18.6	436
k.	Site assembly	26.2	41.2	32.6	386
l.	Construction of new single-family units	22.9	49.8	27.3	428
m.	Fair housing programs	19.4	52.2	28.4	423
n.	Other (Specify) ________	86.1	13.9	0.0	36

4. Now assume that Federal housing assistance is going to be completely revised and adequately funded. Which of the activities listed above (in Question 3) would be your city's top priorities for emphasis in such a revised Federal housing policy? (N = 444 for each of the first three columns. N = 444 for each row in the fourth column.)

		First Choice	Second Choice	Third Choice	% of Cities Selecting Items as First Second, or Third Choice
a.	Rental assistance (money payments)	30.6%	17.1%	13.1%	60.8%
b.	Rehabilitation of single-family homes	20.0	19.1	13.7	52.9
c.	Rehab. of multi-family units (privately owned)	9.7	19.8	13.7	43.2
d.	Construction of new multi-family units	9.5	9.9	8.3	27.7

		First Choice	Second Choice	Third Choice	% of Cities Selecting Items as First Second, or Third Choice
e.	Construction of new public housing units	8.8%	5.2%	6.8%	20.7
f.	Construction of new single-family units	5.0	3.8	3.4	12.2
g.	Rehab. of public housing units	3.4	3.8	7.7	14.9
h.	Site Assembly	3.2	2.0	2.3	7.4
i.	Emergency repairs	1.1	3.4	6.5	11.0
j.	Direct assistance to help people own housing units	0.9	8.3	9.2	18.5
k.	Providing emergency shelters	0.5	2.0	5.0	7.4
l.	Fair housing programs	0.2	2.0	5.0	7.4
m.	Weatherization	0.0	2.0	3.6	5.6
n.	Other (Specify) ___________	0.9	0.2	0.9	2.0
o.	No Response	6.3	2.7	4.5	14.7

5. Please assess the value of each of the Federal programs listed below. For each dollar spent on each program in your jurisdiction, which programs produce a relatively great benefit in meeting the housing needs of poor people in your city? Which show less effectiveness (or "bang for the buck")? Suggestion: imagine that your jurisdiction spends the same amount on each program and compare the programs according to the benefits they produce.

		Highly cost effective; great benefit for each dollar spent	Moderately cost effective; moderate benefit for each dollar spent	Not cost effective; little benefit per dollar	Number of Respondents (N)
a.	CDBG	84.7%	13.8%	1.5%	412
b.	Section 8 - Existing Housing	69.3	29.0	1.7	411
c.	Urban Development Action Grant Program	62.1	29.4	8.5	153

		Highly cost effective; great benefit for each dollar spent	Moderately cost effective; moderate benefit for each dollar spent	Not cost effective; little benefit per dollar	Number of Respondents (N)
d.	Rental Rehabilitation Grants	61.2%	30.6%	8.3%	327
e.	Public Housing Modernization Program	58.6	37.5	3.9	256
f.	Public Housing Operating Subsidy Program	55.7	40.3	4.0	273
g.	Section 202 (Elderly and Handicapped)	55.5	41.3	3.2	283
h.	Section 8 - Rehabilitation Housing	48.6	44.4	7.0	286
i.	HoDAG	45.1	46.2	8.8	91
j.	Housing Vouchers	44.7	48.2	7.1	226
k.	Farmers Home Administration Homeownership Program (Section 502)	44.6	37.5	17.9	56
l.	Multifamily IDBs	43.7	45.9	10.4	183
m.	Low Income Public Housing Program (Construction)	43.6	44.7	11.7	257
n.	Single Family MRBs	42.0	46.0	12.1	174
o.	Rehabilitation Loan Program (Section 312)	41.5	43.8	14.7	265
p.	FmHA Rural Rental Housing Program (Section 515)	40.6	43.8	15.6	32
q.	Flexible Subsidy Program (Troubled Public Housing Projects	40.0	43.6	16.4	55
r.	Urban Homesteading Program	36.6	43.0	20.4	93

		Highly cost effective; great benefit for each dollar spent	Moderately cost effective; moderate benefit for each dollar spent	Not cost effective; little benefit per dollar	Number of Respondents (N)
s.	Section 8 - Newly Constructed Housing	32.8%	50.2%	17.0%	271
t.	Section 236 (Multi-family (Rental)	25.9	60.4	13.7	197
u.	Section 235 and 235 Revised (Single-Family)	23.4	61.7	14.9	188
v.	Other (Specify) _______________	85.0	15.0	0.0	20

6. Of all the Federally aided programs listed above, which are the most cost-effective in your jurisdiction? (N = 444 for each of the first three columns. N = 444 for each row in the fourth column.)

		First Choice	Second Choice	Third Choice	% of Cities Selecting Items as First, Second, or Third Choice
a.	CDBG	43.7%	18.0%	11.3%	73.0%
b.	Section 8 - Existing Housing	17.8	17.8	11.5	47.1
c.	Low Income Public Housing Program (Construction)	4.7	2.9	4.5	12.2
d.	Public Housing Operating Subsidy Program	4.1	5.6	5.9	15.5
e.	Rental Rehabilitation Grants	3.6	14.6	9.7	27.9
f.	Urban Development Action Grant Program	3.6	4.1	3.4	11.0

		First Choice	Second Choice	Third Choice	% of Cities Selecting Items as First, Second, or Third Choice
g.	Section 8 - Rehabilitation Housing	3.4%	4.3%	4.7%	12.4%
h.	Section 202 (Elderly and Handicapped)	2.5	4.1	8.1	14.6
i.	Multifamily IDBs	2.5	2.5	2.0	7.0
j.	Public Housing Modernization Program	2.3	4.1	5.2	11.5
k.	Section 8 - Newly Constructed Housing	1.8	3.8	4.7	10.4
l.	Rehabilitation Loan Program (Section 312)	1.6	3.6	4.1	9.2
m.	Housing Vouchers	0.9	1.8	2.3	5.0
n.	Farmers Home Administration Homeownership Program (Section 502)	0.5	0.5	0.2	1.1
o.	Section 235 and 235 Revised (Single-Family)	0.5	0.7	1.8	2.9
p.	Urban Homesteading Program	0.2	0.7	1.8	2.7
q.	Flexible Subsidy Program (Troubled Public Housing Projects	0.2	0.0	0.7	0.9
r.	HoDAG	0.2	0.9	0.9	2.0
s.	Single Family MRBs	0.2	1.4	3.6	5.2
t.	FmHA Rural Rental Housing Program (Section 515)	0.0	0.5	0.5	0.9
u.	Section 236 (Multi-family (Rental)	0.0	1.1	1.4	2.5
v.	Other (Specify) __________	0.2	0.5	0.9	1.6
w.	No response	5.6	6.8	11.0	23.4

7. If funding for these three Federal programs (in previous question) were (or has been) terminated, how much of the money, if any, would likely be replaced from other sources?

	Little or no replacement	Less than half	More than half	Number of Respondents
First:	83.0%	14.8%	2.2%	405
Second:	87.0	11.0	2.0	391
Third:	87.6	10.4	1.9	364

8. Which of the following best characterizes your jurisdiction's relationship with the local housing authority? (N = 444)

1.	The agency is a separate city entity with its own board.	56.8%
2.	The agency is a separate entity responsible directly to the mayor or city manager.	8.6%
3.	Public housing is not a city agency but countywide	19.4%
4.	Other (briefly describe)	15.4%

9. Are any city dollars (including CDBG) used in your public housing program? (N = 444)

1.	No	51.4%
2.	Yes, but a limited amount and only for special service programs	26.1%
3.	Yes, significant support for a variety of services	8.8%
4.	Other (explain) ______________________________	13.8%

10. What statement best describes your jurisdiction's relationship with community-based organizations (CBOs) as they relate to housing and community development? (N = 444)

1.	No relationship.	20.7%
2.	CBOs play a minor role and receive no grants or contracts from the city.	26.8%
3.	CBOs have a number of grants or contracts for very specific activities in the city's housing and CD program.	31.1%

4. Several CBOs not only have grants and contracts for specific city-defined tasks but also get general support for their own projects 13.3%

5. CBOs and other non-profit groups are the major means of implementation of city housing programs. 3.8%

6. Other 4.3%

APPENDIX C

List of Cities that Responded to NLC's Housing Survey 1986

Alabama

Anniston
Birmingham
Dothan
Enterprise
Florence
Gadsden
Mobile
Tuscaloosa

Arizona

Casa Grande
Flagstaff
Paradise Valley
Phoenix
Scottsdale
Sierra Vista
Tempe
Tucson

Arkansas

Fort Smith
Jacksonville
North Little Rock
Pine Bluff

California

Alameda
Anaheim
Antioch
Bellflower
Carson
Chico
Chula Vista
Claremont
Concord
Daly City
El Cajon
Escondido
Eureka
Fremont
Garden Grove
Glendale
Hawthorne
Hayward
Huntington Beach
Inglewood
Irvine
Lakewood
Livermore
Lomita
Lompoc
Lynwood
Modesto
Monterey
Mountain View
National City
Oceanside
Orange
Oxnard
Palmdale
Palo Alto
Pasadena
Pico Rivera
Pleasant Hill
Pomona
Porterville
Rancho Cucamonga
Redding
Redondo Beach
Redwood City
Riverside
Salinas
San Bernardino
San Diego
San Francisco
Santa Ana
Santa Barbara
Santa Cruz
Santa Monica
Seaside
Thousand Oaks
Tulare
Turlock
West Covina
Whittier
Woodland

Colorado

Arvada
Aurora
Boulder
Colorado Springs
Denver
Greeley
La Junta
Lakewood
Pueblo
Westminster

Connecticut

Danbury
East Hartford

Connecticut

East Haven
Fairfield
Greenwich
Hartford
Meriden
New London
Norwalk
Stamford
Torrington
West Haven
Winchester

District of Columbia

Washington, DC

Delaware

Wilmington

Florida

Atlantic Beach
Bradenton
Cape Coral
Cocoa
Daytona Beach
Fort Myers
Hialeah
Hollywood
Melbourne
Miami Beach
Naples
Ocala
Orlando
Ormond Beach
Panama City
Sarasota
South Daytona
Tampa
Titusville
West Palm Beach
Winter Haven

Georgia

Albany
Augusta
Brunswick
Columbus
Macon
Marietta
Savannah
Warner Robins

Hawaii

Honolulu

Idaho

Boise City
Pocatello

Illinois

Aurora
Bloomington
Blue Island
Champaign
Decatur
Des Plaines
Gurnee
Joliet
Moline
Normal
Paris
Peoria
Rantoul
Rock Island
Skokie
Springfield
Urbana

Indiana

Bloomington
Elkhart
Evansville
Indianapolis
Lafayette
Mishawaka
New Albany
South Bend
West Lafayette

Iowa

Burlington
Cedar Falls
Cedar Rapids
Davenport
Des Moines
Iowa City
Waterloo

Kansas

Atchison
Leavenworth
Olathe
Topeka

Kentucky

Covington
Franklin
Louisville
Owensboro

Louisiana

Houma
Kenner
Lafayette
Lake Charles
Monroe
New Orleans
Shreveport
Westwego

Maine

Brewer
Lewiston
Portland

Maryland

Baltimore
Cumberland
Hagerstown

Massachusetts

Attleboro
Boston
Cambridge
Fitchburg
Haverhill
Lynn
New Bedford
Newton
Northampton
Pittsfield
Salem
Springfield
Waltham

Michigan

Dearborn Heights
Detroit
Farmington Hills
Flint
Grand Rapids
Holland
Lansing
Lincoln Park
Livonia
Monroe
Muskegon
Port Huron
Portage
Saginaw
Taylor
Westland
Wyoming

Minnesota

Albert Lea
Bloomington
Mankato
Minneapolis
Moorhead
Rochester
Roseville
St. Paul

Mississippi

Biloxi
Meridian
Pascagoula

Missouri

Columbia
Florissant
Kansas City
Springfield
St. Joseph
St. Louis
St. Peters

Montana

Billings
Great Falls

Nebraska

Lincoln
Omaha

Nevada

Henderson
Reno

New Hampshire

Rochester

New Jersey

Clifton
Hamilton
Irvington
Long Branch
Millville
New Brunswick
Newark
Old Bridge
Orange
Parsippany
Perth Amboy
Sayreville
Toms River
Trenton
Vineland

New Mexico

Albuquerque
Las Cruces
Santa Fe

New York

Albany
Binghamton
Buffalo
New Rochelle
New York
Newburgh
Port Jervis
Rochester
Rome
Syracuse
Troy
White Plains

North Carolina

Asheville
Burlington
Charlotte
Concord
Conover
Durham
Fayetteville
Goldsboro
Greensboro
Hickory
High Point
Lenoir
Raleigh
Whiteville
Winston-Salem

North Dakota

Bismarck
Fargo

Ohio

Akron
Brook Park
Cleveland
Cleveland Heights
Columbus
Dayton
Eastlake
Elyria
Euclid
Kent
Kettering
Lakewood
Lima
Lorain
Mansfield
Marietta
Newark
Ravenna
Springfield
Warren

Oklahoma

Guymon
Lawton
Midwest City
Norman

Oklahoma

Oklahoma City
Shawnee
Tulsa

Oregon

Eugene
Grants Pass
Medford
Newberg
Portland
Springfield
The Dalles

Pennsylvania

Allentown
Altoona
Ardmore
Chester
Erie
Harrisburg
Lancaster
Levittown
McKeesport
New Castle
Philadelphia
Pittsburgh
State College
Upper Darby
Wilkes-Barre
Williamsport
York

Puerto Rico

Arecibo
Caguas
Carolina
San Juan
San Sebastian

Rhode Island

Lincoln
Providence

South Carolina

Charleston
Columbia
Greenville
North Charleston
North Myrtle Beach
Rock Hill
Spartanburg

South Dakota

Rapid City
Sioux Falls

Tennessee

Bristol
Chattanooga
Clarksville
Dayton
Johnson City
Kingsport
Knoxville
Memphis
Murfreesboro
Nashville
Pulaski

Texas

Abilene
Arlington
Austin
Baytown
Brownsville
Bryan
College Station
Commerce
Dallas
Edinburg
El Paso
Galveston
Grand Prairie
Harlingen
Laredo
Longview
Lubbock
McAllen
Mesquite
Odessa
Pasadena
Plano
Port Arthur
San Angelo
San Antonio
Texarkana
Tyler
Victoria

Texas

Waco
Wichita Falls

Utah

Ogden
Provo
Salt Lake City
Sandy City

Virginia

Alexandria
Hampton
Hopewell
Newport News
Norfolk
Richmond
Roanoke
Virginia Beach

Vermont

Burlington
Rutland

Washington

Auburn
Bellevue
Bellingham
Bremerton
Everett
Kennewick
Olympia
Richland
Seattle
Spokane
Tacoma
Vancouver
Yakima

West Virginia

Charleston
Parkersburg
Weirton

Wisconsin

Appleton
Beloit
Eau Claire
Green Bay
Kenosha
Milwaukee
Neenah
Oshkosh
Racine
Wauwatosa

Wyoming

Douglas

URBAN COUNTIES THAT RESPONDED TO NLC'S HOUSING SURVEY 1986

1. Maricopa County, Arizona
2. Pima County, Arizona
3. Contra Costa County, Calf.
4. Los Angeles County, Calf.
5. Riverside County, Calf.
6. San Bernardino County, Calf.
7. San Diego County, Calf.
8. San Mateo County, Calf.
9. Santa Clara County, Calf.
10. Sonoma County, Calf.
11. New Castle County, Delaware
12. Broward County, Florida
13. Dade County, Florida
14. Duval County, Florida
15. Hillsborough County, Florida
16. Orange County, Florida
17. Palm Beach County, Florida
18. Pinellas County, Florida
19. Polk County, Florida
20. Volusia County, Florida
21. DeKalb County, Georgia
22. Fulton County, Georgia
23. Du Page County, Illinois
24. Lake County, Illinois
25. Jefferson Parish, Louisiana
26. Baltimore County, Maryland
28. Oakland County, Michigan
29. Hennepin County, Minnesota
30. Bergen County, New Jersey
31. Morris County, New Jersey
32. Union County, New Jersey
33. Monroe County, New York
34. Cuyahoga County, Ohio
35. Franklin County, Ohio
36. Montgomery County, Ohio
37. Multnomah County, Oregon
38. Chester County, Penn.
39. Delaware County, Penn.
40. Montgomery County, Penn.
41. Greenville County, SC
42. Tarrant County, Texas
43. Arlington County, Virginia
44. Fairfax County, Virginia
45. Pierce County, Washington
46. Milwaukee County, Wisconsin
47. Salt Lake County, Utah

About The National League of Cities

The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and some 1,300 cities directly and, through the membership of the state municipal leagues, more than 16,000 cities indirectly.

NLC serves as an advocate for its members in Washington in the legislative, administrative, and judicial processes that affect them; develops and pursues a national urban policy that meets the present and future needs of our nation's cities and the people who live in them; offers training, technical assistance and information to municipal officials to help them improve the quality of local government in our urban nation; and undertakes research and analysis on topics and issues of importance to the nation's cities.

NATIONAL LEAGUE OF CITIES
1301 Pennsylvania Avenue NW
Washington, D.C. 20004
(202) 626-3000

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CITY FISCAL CONDITIONS IN 1987

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CITY FISCAL CONDITIONS IN 1987

by

Douglas D. Peterson
Senior Policy Analyst
National League of Cities

June 1987

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PREFACE

This fifth annual National League of Cities City Fiscal Conditions Report presents the results of a survey sent to American cities in March 1987. It is one of a series of reports published by NLC in a continuing effort to provide current information on the state of America's cities.

This survey expands on previous surveys by including data on the levels of city taxes. A special element of this year's survey was a series of questions about the 1986 federal income tax reform law.

The report was prepared by NLC's Office of Policy Analysis and Development. Douglas Peterson, NLC Senior Policy Analyst, was responsible for developing the survey, analyzing the results, and preparing this report.

It is our hope that conducting this survey and publishing this report will contribute to a continuing discussion of and better understanding of the financial conditions of America's cities and towns. It is our further hope that this will in turn lead to more informed policy-making aimed at the improvement of these conditions.

Alan Beals
Executive Director
National League of Cities

William E. Davis, III
Director, Office of
Policy Analysis and Development

ACKNOWLEDGEMENTS

First, and most importantly, I would like to express my appreciation to the over 550 City Budget Officers, Finance Directors, Mayors, City Clerks, and other municipal officials who made time in their busy schedules to complete the questionnaire on which this report is based. Without their prompt and conscientious participation, the report would not be possible. I hope that they find that the quality and usefulness of this report matches the quality of their efforts.

Second, to Mr. William Davis, Director of NLC's Office of Policy Analysis and Development and Mr. William Barnes, NLC's Research Director for their continuing guidance and encouragement.

Third, special thanks to Ms. Deborah E. Johnson, Ms. Althea Ray, Ms. Lesley-Ann Rennie, Ms. Leah Thomas, and Ms. Karen Parker for their skillful assistance with not only the data input, but also the conversion of numerous drafts into this final document.

Additionally, to Mr. Jeff Fletcher, Marketing Director, Mr. Frank Shafroth, Director of Federal Relations, and Mr. Randy Arndt, Media Director all of the NLC staff for their helpful suggestions as the survey was developed.

Douglas D. Peterson
Senior Policy Analyst
Office of Policy Analysis
and Development

CITY FISCAL CONDITIONS IN 1987

by

Douglas D. Peterson
National League of Cities

July 1987

EXECUTIVE SUMMARY

America's cities and towns are currently in a challenging year of fiscal transition. Two critical events during the past twelve months have begun a major alteration in the municipal financial picture. First, General Revenue Sharing, a program which provided twenty-four (24) percent of the direct federal aid to American cities, was terminated in September, 1986. Second, the federal tax reform law, signed October 23, 1986, has dramatically impacted the ability of cities to raise capital locally due to the many new constraints placed on the use of tax exempt municipal bonds.

Because city fiscal years generally don't correspond with the federal fiscal year the complete impact of these two changes has not been fully registered by most of the city budgets included in this survey. Some early signals, however, are reflected in the results of this survey which was conducted in March 1987 and includes responses from 545 cities and towns.

City and town budgets remain subject to the slow growing, but regionally uneven, U.S. economy and are becoming increasingly vulnerable to its fluctations. This vulnerability is evidenced in a number of facts:

(1) the loss of almost one quarter of direct federal assistance with the cancellation of General Revenue Sharing;

(2) the large percentage of cities that are reducing their general fund balances and thereby lessening their ability to cope with future fluctuations;

(3) the large percentage of cities that report having already made reductions in capital spending and also say the loss of GRS will heavily impact capital spending in the future; this is significant because it means that city budgets will be proportionately more heavily composed of operating costs which are inherently more difficult to control and which more immediately result in service cuts when reduced;

(4) the large percentage of cities and towns which are already operating at the tax limits permitted by state law.

General Fund Revenues -- One out of three U.S. cities expect to see an actual, general fund revenue decline in fiscal year 1987. This is almost twice as large a percentage as seen in 1986. An increasing percentage of cities in all regions of the country expect to see this revenue decline. The situation is more pressing for the cities with populations between 1,000 and 10,000; one half of these communities expect to experience general fund revenue reductions.

The three largest sources of tax revenue to cities are: property, sales, and income taxes. Cities, however, are constrained in their ability to raise these taxes by state imposed limitations. Forty-three percent of the cities that are subject to a property tax cap indicate they are at the limit; this is true in eighty (80) percent of the cities with state sales tax caps and twenty-three (23) percent of those with income tax caps.

General Fund Expenditures -- One-fifth of all the cities expect their general fund spending to decline in 1987. The smaller the size of the city, the greater the percentage expecting this to occur; only five percent of the cities over 300,000 expect this to occur, but twenty-eight (28) percent of the cities under 10,000 expect this to occur.

During the past year fifty-five (55) percent of the cities have reduced capital spending, fifty-five (55) percent have reduced the rate of growth in operating spending, and fifty-eight (58) percent have increased the level of user fees, charges, and other non tax revenues. An increasing number of cities continue to see their current general fund expenditures outpace their current general fund revenues. Many cities are therefore reducing their balances in order to keep the general fund budget in the black.

The loss of GRS -- The loss of GRS, while not yet completely felt, is having an impact. Of those cities reducing capital spending in the past year, eighty-one (81) percent said the loss of GRS was an influential factor. Forty-four (44) percent say that the loss of GRS will significantly impact their capital spending.

One-fifth of the communities say that the loss of GRS will significantly impact their police and fire operations.

Of those cities that have increased tax rates in the past year, seventy (70) percent cite the loss of GRS as an influential factor.

Federal Tax Reform -- Federal tax reform legislation has made the acquisition of capital for local projects significantly more complex and will further impact the decline in capital spending. Eighty percent of the responding city officials said it was very important to "again make interest on municipal bonds completely tax exempt by removing municipal bond interest from any computation of tax liability."

City Employment -- More than one quarter of the cities in this survey are reducing the size of their city workforce in 1987. This follows on 1986 when one quarter of the cities reduced their municipal employees. Even in the cities that report 1987 increases in employment, the additions will be modest; only eleven (11) percent of the cities report increasing 1987 city employment by more than five percent.

Further details on each of the foregoing findings can be found in the body of the report, and the reader is directed there for a fuller discussion of each.

CHAPTER I

INTRODUCTION

This study reports on the fifth annual survey of city fiscal conditions of America's cities conducted by the National League of Cites.

The League conducts this survey as part of its continuing research and information program for America's municipalities.

While a complete analysis of an individual city's fiscal health involves an examination of a host of factors beyond the scope of this survey, it is hoped that this report based on responses by a cross section of American cities, can establish a baseline for further individual analyses.

The responses of the 545 cities, who completed the survey documents, have enabled preparation of a report with representation from throughout the country.

The emphasis in this report is not to aggregate the municipal financial experience but rather to demonstrate its variations. If the financial transactions of all cities are simply added up, the result is a homogenization in which the variety of the municipal fiscal landscape is lost.

The report provides information on a variety of city financial indicators including:

- the trend in general fund revenues, expenditures, and balances
- the trend of city tax rates and tax collections

- the trend in municipal hiring
- the impacts on cities of the loss of general revenue sharing
- budget adjustments made by cities in the last year and the factors influencing these adjustments
- preferences for modifying the new federal income tax law particularly as it affects municipal bonds.

The report also provides information on city tax elections, state actions to help fill the municipal funding gap left by the termination of general revenue sharing, and reports on cities that are operating at the margins of state taxing limits.

All of these factors are important, but all are of a narrow accounting nature. They look only at taxes levied, money spent, and financial balances. To get a more complete picture of city fiscal conditions, there is a need for indicators of comparable strength that measure service deficits and surpluses, that is, indexes of the services which citizens receive and deserve. This report does not provide these equally important measures, but it is hoped that some useful trend data is provided which can assist in individual community assessments and contribute to national and state policy discussions about municipal policies that invest in the future of America's cities and towns.

Why are cities important?

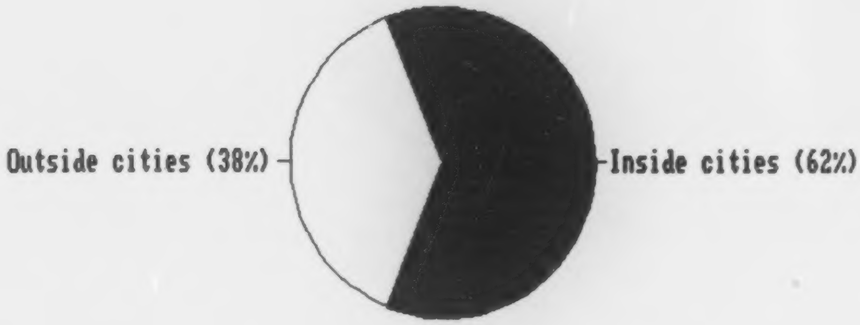
There are over 19,000 government units in the United States classified by the U.S. Census as municipalities. Their formal title may be city or town or village but they share an important common function--the delivery of services to their citizens.

It is a diverse group ranging from New York City, whose population is larger than that of all but eight states, whose municipal workforce is larger than the total population of all but 34 American cities, and which spends 18 percent of all the money spent by U.S. municipalities, to the smallest incorporated places with populations of less than 50 people and which provide virtually all their services through the use of volunteers.

Over 60 percent of the U.S. population resides in cities.

FIGURE I-1

POPULATION of the UNITED STATES LIVING in CITIES

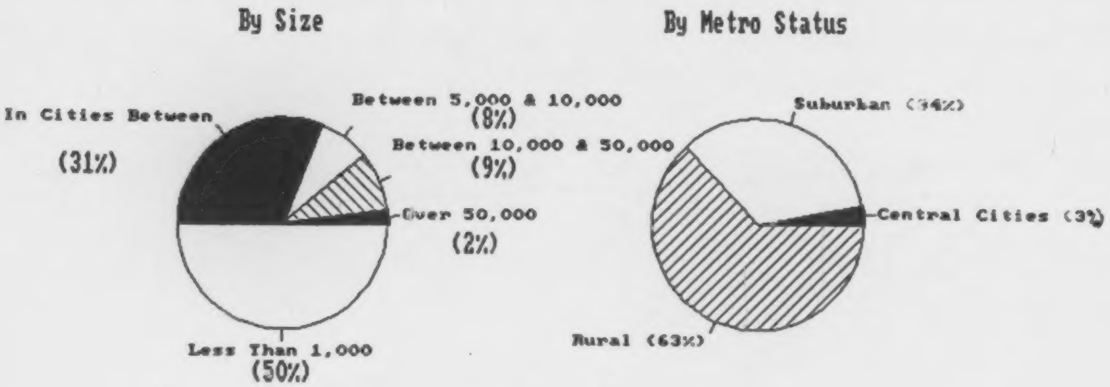


1980 Population

As mentioned previously there is a diversity in the size of cities. According to 1980 federal data there are over 19,000 U.S. municipalities; when divided by size and metropolitan status they are distributed as follows:

FIGURE I-2

DISTRIBUTION of U.S. CITIES
by POPULATION SIZE CLASS and METROPOLITAN STATUS



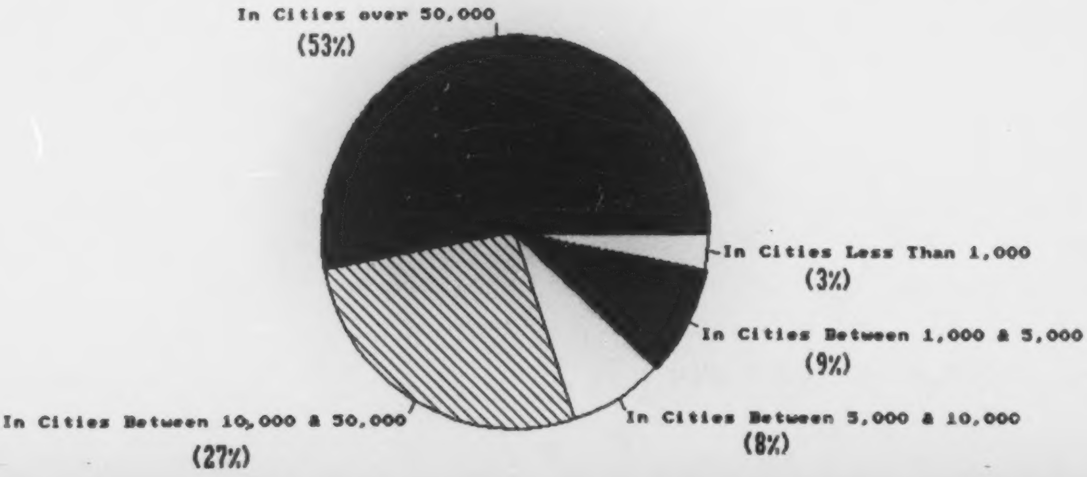
Suburban City - in Metro Area not central city

Rural - outside Metro Area

When the population living within these cities is examined, a reversal of the previous pattern occurs; the fewer, larger cities contain the bulk of the municipal population.

FIGURE I-3

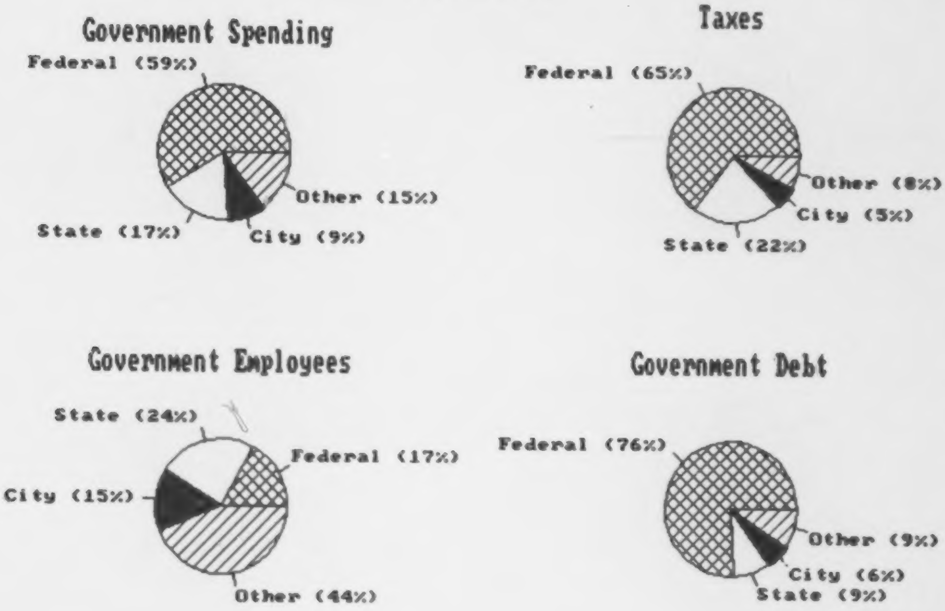
DISTRIBUTION of TOTAL MUNICIPAL POPULATION
BY SIZE of CITY



When viewed as part of the American Governmental Financial System, cities are also significant.

FIGURE I-4

CITIES as a SHARE of GOVERNMENT ACTIVITY in U.S.
FISCAL 1985



Taxes include Social Security and unemployment

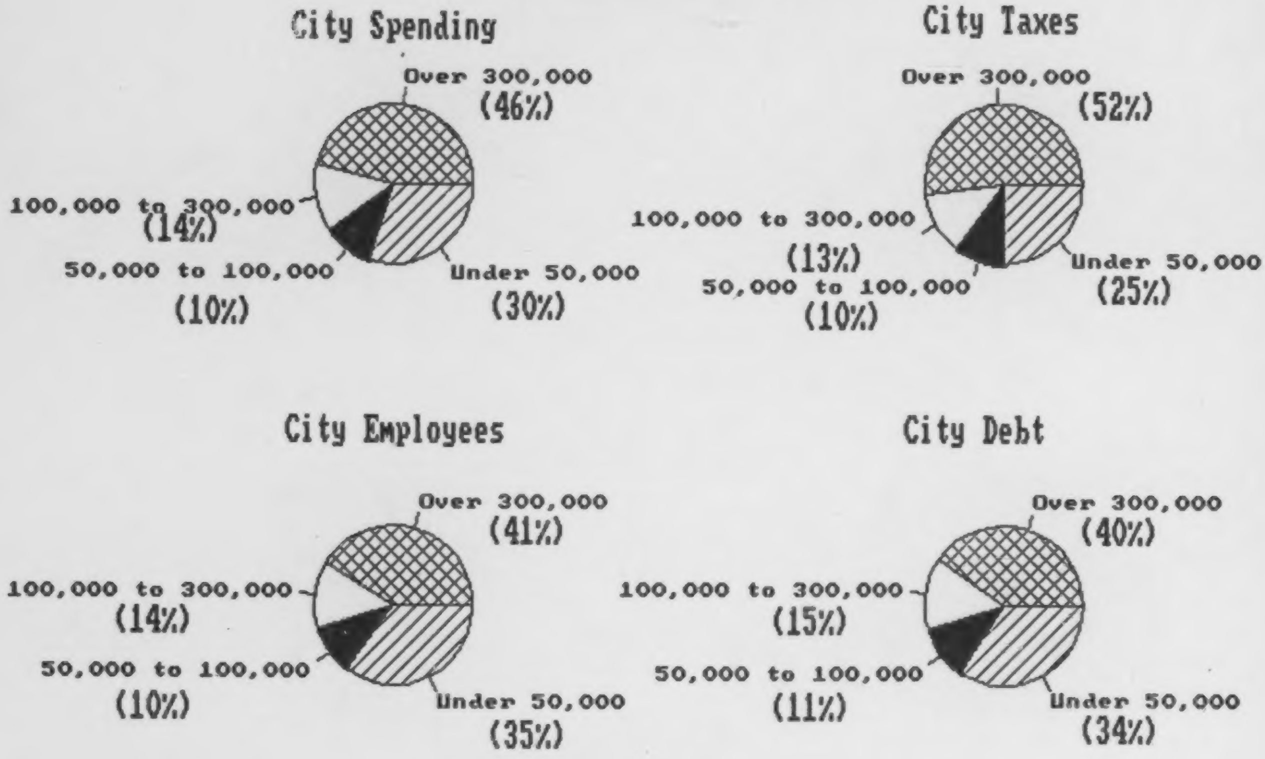
Source: U.S. Census - "Governmental Finances 1984-5", "Public Employment 1985"

As the solid areas on these graphs indicate, cities are responsible for nine percent of all governmental spending, levy five percent of all taxes, employ 15 percent of all civilian government employees, and are responsible for six percent of all governmental debt outstanding.

When the city figures are examined on a city size basis, the following shares are revealed.

FIGURE I-5

TOTAL MUNICIPAL FINANCIAL ACTIVITY
by CITY SIZE - FY 1985



Example-Cities over 300,000 represented 46% of all city spending

Source: U.S. Census, "City Government Finances 1984-85", "City Employment 1985"

The purpose of this report is to indicate where cities have been in the recent past and what they face in fiscal 1987.

How the Survey was Done and Which Cities Responded

In March, 1987, a city fiscal conditions questionnaire was sent to 1423 American cities by NLC's Office of Policy Analysis and Development. The questionnaire asked for a three year history of a number of items:

- Summary of General Fund transactions
- Property tax rates, collections, and assessed value
- Sales tax rates and collections
- Income tax rates and collections
- Municipal personnel

Also included were a series of questions on federal tax reform and adjustments made in reaction to the reduction in federal funds for cities.

TABLE I-1

CITIES SURVEYED BY CITY SIZE

City Population Size	Total Number of Cities in This Class	Number of Surveys Sent	Percent Surveyed	Number Respond.
300,000 and over	49	49	100	37
100,000 to 299,999	127	127	100	67
50,000 to 99,999	250	250	100	105
10,000 to 49,999	1,787	717	40	236
5,000 to 9,999	1,515	165	11	46
1,000 to 4,999	5,850	210	4	51
less than 1,000	9,514	18	---	3
	19,076	1,423	7	545

TABLE I-2

1987 NLC FINANCIAL SURVEY
CITIES TABULATED BY STATE AND POPULATION SIZE

States	Total	Over 300,000	100,000 to 299,999	50,000 to 99,999	10,000 to 49,999	Under 10,000
Alabama	11	1	1	2	2	5
Alaska	2	-	1	-	-	1
Arizona	13	1	4	1	4	3
Arkansas	4	-	1	2	-	1
California	57	6	9	20	21	1
Colorado	16	1	2	4	5	4
Connecticut	8	-	1	5	2	-
D.C.	1	1	-	-	-	-
Delaware	4	-	-	1	2	1
Florida	30	1	5	8	13	3
Georgia	13	1	1	-	6	5
Hawaii	1	1	-	-	-	-
Idaho	2	-	1	-	1	-
Illinois	27	1	2	6	14	4
Indiana	10	1	3	-	4	2
Iowa	15	-	3	3	6	3
Kansas	13	-	3	2	6	2
Kentucky	9	-	-	2	3	4
Louisiana	11	1	1	2	2	5
Maine	1	-	-	1	-	-
Maryland	6	1	-	-	2	3
Massachusetts	4	1	1	1	1	-
Michigan	24	1	2	7	11	3
Minnesota	19	1	-	3	13	2
Mississippi	8	-	1	-	6	1
Missouri	17	2	1	1	11	2
Montana	5	-	-	1	3	1
Nebraska	10	-	1	-	6	3
Nevada	3	-	1	-	1	1
New Hampshire	2	-	-	-	2	-
New Jersey	1	-	-	1	-	-
New Mexico	6	1	-	1	3	1
New York	7	1	1	-	4	1
North Carolina	21	1	3	2	7	8
North Dakota	4	-	-	-	2	2
Ohio	26	3	1	6	12	4
Oklahoma	8	-	-	-	6	2
Oregon	10	1	1	-	5	3
Pennsylvania	7	2	1	4	-	-
Puerto Rico	-					
Rhode Island	1	-	-	1	-	-
South Carolina	9	-	-	-	6	3
South Dakota	5	-	-	1	3	1
Tennessee	12	1	-	1	6	4
Texas	33	3	5	7	14	4
Utah	3	-	1	1	1	-
Vermont	-					
Virginia	10	-	6	1	2	1
Washington	15	1	2	2	10	-
West Virginia	5	-	-	2	1	2
Wisconsin	9	1	1	3	3	1
Wyoming	7	-	-	-	5	2
TOTALS	**545**	**37**	**67**	**104**	**237**	**99**

Over 500 cities returned the survey document in time to be included in this report. Table I-2 reports the distribution of the responding cities by population size and state. A complete list of the responding cities is included in the Appendix.

The population size of the responding cities ranged from 757 in Esterwood, Louisiana to 7,164,742 in New York City.

On a regional basis, the respondents were distributed as follows:

TABLE I-3

RESPONDING CITIES BY REGION AND POPULATION SIZE

	Total	Over 300,000	100,000 to 299,999	50,000 to 99,999	10,000 to 49,999	Under 10,000
Northeast	31	4	4	13	9	1
Midwest	178	10	16	32	91	29
South	195	11	24	30	78	52
West	141	12	23	30	59	17
	545	37	67	105	237	99

The regional breakdowns used are as defined by U.S. Census Bureau. The composition of these four regions and their component divisions is shown on Table I-4.

TABLE I-4

REGIONS AND DIVISIONS

Northeast Region

- New England Division
  - Maine
  - New Hampshire
  - Vermont
  - Massachusetts
  - Rhode Island
  - Connecticut

- Mid-Atlantic
  - New York
  - New Jersey
  - Pennsylvania
  - Puerto Rico

North Central Region

- East North Central
  - Ohio
  - Indiana
  - Illinois
  - Michigan
  - Wisconsin

- West North Central
  - Minnesota
  - Iowa
  - Missouri
  - North Dakota
  - South Dakota
  - Nebraska
  - Kansas

South Region

- South Atlantic
  - Delaware
  - Maryland
  - District of Columbia
  - Virginia
  - West Virignia
  - North Carolina
  - South Carolina
  - Georgia
  - Florida

- East South Central
  - Kentucky
  - Tennessee
  - Alabama
  - Mississippi

- West South Central
  - Arkansas
  - Louisiana
  - Oklahoma
  - Texas

West Region

- Mountain
  - Montana
  - Idaho
  - Wyoming
  - Colorado
  - New Mexico
  - Arizona
  - Utah
  - Nevada

- Pacific
  - Washington
  - Oregon
  - California
  - Alaska
  - Hawaii

CHAPTER II

THE GENERAL FUND BUDGET

The survey asked respondents for a three year history of their city's general fund budget in order to provide an indication of municipal budget trends.

What were the cities asked for?

The cities were asked for a three year history/projection of their general fund budget.

I. For the City's General Fund

The officials were asked to provide information for their city's general fund.

The general fund was selected as the focus of this report for the following important reasons:

1) "The general fund is normally the most important fund of a municipality. It accounts for all resources not otherwise devoted to specific activities and finances many of the basic municipal functions . . ." (Reference, International City Management Association (ICMA), Management Policies in Local Government Finance, p. 209.)

2) The general fund is frequently a central focus of local budget deliberations since it usually finances such central municipal functions as police, fire, public works, planning and central administrative departments. It is also the area where state imposed limitations on taxing and spending are often most binding.

The general fund frequently does not include all the expenditures a city makes.

The proportion of a city's spending incorporated in the general fund can show substantial variation depending on: (1) the complexity of a city's accounting system and the dictates of federal or state laws; (2) borrowing requirements imposed by lenders; and (3) the functions which a city carries out. As mentioned before, in some very small communities one hundred percent of the budget may be in one general fund. In larger communities there will be significant variations.

Some examples from three cities chosen at random show that the general fund represented the following proportions of total city spending: Greensboro, North Carolina sixty-two percent, San Diego, California fifty-one percent and Phoenix, Arizona thirty-six percent. (Sources: Greensboro - 1984-85 budget, San Diego - 1985 budget addendum and Phoenix - 1985-86 budget).

Under governmental accounting practices used by cities, separate funds may be established to account for resources, especially those that are dedicated for a particular purpose. When a city begins and for a very small community, one general fund may be sufficient to account for all financial operations. In most communities, even those of modest size, a number of funds are required. Examples of operations that are frequently set up in funds separate from the general fund would include:

A. Enterprise Funds -- for example, municipally operated sewer, water, and electric utilities which are established to be self sustaining through customer service charges.

B. Debt Service Funds -- which are set up to receive dedicated revenues used to make principal and interest payments on city debt.

C. Trust Funds -- for example bequests which are to be spent only for particular purposes.

D. Special Revenue Funds --- such as those set up for account for federal or state grants given to accomplish particular projects.

II. Four Numbers

They were asked to provide four figures for each year.

Beginning Balance -- Simply speaking, these are the resources with which the city's general fund begins the year. If the city's general fund were a personal checking account, this would be like the balance carried forward from the previous month.

Revenues (and transfers in) -- This is the grand total of all taxes, fees, charges, federal and state grants, and other monies deposited into the general fund. While revenues are generally recurring items, the "transfers into general fund" also lumped into this item might not be of a regular nature. These transfers occur when a city brings funds from one of its other specialized funds into the general fund for a variety of reasons.

Expenditures (and transfers out) -- This is the total of all spending by the general fund of the city and may include both operating and capital spending. As on the expenditure side, transfers out of the general fund to other funds of the government are also included here.

Ending Balance -- These are the resources with which the city's general fund is left at the end of the year. The ending balance results from this simple equation: (Beginning Balance + Revenue - Expenditures = Ending Balance). The ending balance of year one becomes the beginning balance of the ensuing year.

III. For three years

The cities were asked to provide the general fund summary figures previously described for each of three years.

A. The fiscal year which ended in 1985
B. The fiscal year which ended in 1986
C. The fiscal year which will end in 1987

The Surveys were completed in March and April of 1987, consequently respondents had to use estimated or budget figures for 1987. It is to be expected that actual 1987 figures will differ from those reported here. Some of the 1986 figures are also subject to adjustment, particularly those for cities with fiscal years ending in December.

The fiscal year used by cities within a state tend to be uniform and are often specified by state law. The following fiscal years were reported by the responding cities.

TABLE II-1

MONTH IN WHICH FISCAL YEAR ENDS

Fiscal Year Ending	Percent of Responding Cities
June	47
December	29
September	16
July	2
April	3
Other	3
Total	100

Revenues

This section of the report looks at the rates of growth in general fund revenues experienced by the surveyed cities during two time periods (1) Fiscal year 1985 to 1986 and (2) Fiscal year 1986 to 1987.

One of the most striking things is the variety of city revenue change.

TABLE II-2

GENERAL FUND REVENUE CHANGE PERCENT OF CITIES

	FY 85 to 86	FY 86 to 87
Revenue declined	17%	33%
Revenue holding constant	4	5
Revenue increasing	79	62
	100%	100%

Almost twice as many cities anticipate actual declines in their revenues in 1987 than the percentage who saw this occur in 1986. One out of three cities expect to see their revenue decrease.

TABLE II-3

CITIES WITH DECLINING GENERAL REVENUE BY REGIONS

	FY 85 to 86	FY 86 to 87
All Regions	17%	33%
Northeast	11	16
Midwest	17	33
South	21	36
West	17	32

An increased percentage of cities in all regions expect to see general fund revenue declines. The largest percentage of cities who expect to see revenue declines are in the South where thirty-six percent of the cities expect to see declining revenues. The lowest percentage who expect to see revenue declines is in the Northeast, but the small number of respondents from this region is raised as a caution in interpreting this result.

TABLE II-4

PERCENT OF CITIES IN EACH SIZE CLASS WITH A GENERAL FUND REVENUE DECLINE

Population Size	FY 85 to 86	FY 86 to 87
All Cities	**17%**	**33%**
300,000 and over	3	8
100,000 to 299,999	16	18
50,000 to 99,999	13	34
10,000 to 49,999	20	33
less than 10,000	28	53

Over half (53%) the cities of less than 10,000 population expect to see an actual decline in their general fund revenue. Much smaller percentages of the cities over 100,000 population expect to see a revenue decline, while one third of those between 10,000 and 50,000, who compose the largest number of respondents, expect to see a revenue decline. In every size category there is an increase in the percentage of cities who expect to experience a general fund revenue decline during the 1987 fiscal year.

What about those cities who expect a revenue increase? Roughly 30 percent of the cities in both years expect to see a modest revenue increase of between one and five percent. Those that expect general fund revenue increases in excess of five percent come from the following regions and size classes.

TABLE II-5

CITY REVENUE INCREASES OVER FIVE PERCENT BY REGION

	FY 85 to 86	FY 86 to 87
All cities	**52%**	**33%**
Northeast	67	57
Midwest	39	31
South	51	27
West	65	39

While fifty-two percent of all cities in 1986 saw revenue increase more than five percent, only thirty-three percent expect to see this rate of growth in 1987. This drop from fifty-two percent to thirty-three percent is a thirty-seven percent decrease.

Second, a smaller percentage of cities in each region expect to see this favorable rate of revenue growth in 1987.

TABLE II-6

CITY REVENUE INCREASES EXCEEDING FIVE PERCENT BY POPULATION SIZE

Population Class	FY 85 to 86	FY 86 to 87
All Cities	52%	33%
300,000 and over	48	24
100,000 to 299,999	61	48
50,000 to 99,999	58	37
10,000 to 49,999	48	34
less than 10,000	47	22

As the above table shows, a much smaller percentage of cities in each size class expect to see revenue increases exceeding five percent in 1987. The cities of 100,000 to 200,000 population are the most optimistic about this prospect while those of less than 10,000 are the most pessimistic.

Expenditures

City general fund spending patterns exhibit as much variety as the revenue growth patterns which were just described.

TABLE II-7

EXPENDITURE EXPECTATIONS

Cities Who Expect Expenditures To:	FY 85 to 86	FY 86 to 87
Decline	18%	21%
Be constant	3	4
Increase	79	75
	100%	100%

The percentages of cities falling into these three broad categories are quite consistent from year to year. A slightly greater percentage of cities expect their general fund expenditures to decline while slightly fewer expect to see an increase.

TABLE II-8

LOWER CITY SPENDING BY REGION

	FY 85 to 86	FY 86 to 87
Total	**18%**	**21%**
Northeast	4	16
Midwest	16	19
South	20	26
West	18	20

The percentages are fairly consistent from year to year when evaluated on a regional basis. The largest apparent change is the much greater percentage of Northeastern cities who expect to see a spending decline. When interpreting this Northeastern statistic, the finding must be viewed cautiously because of the small number of Northeastern cities that responded.

TABLE II-9

LOWER SPENDING BY POPULATION SIZE OF CITY

Population Class	FY 85 to 86	FY 86 to 87
All Cities	**18%**	**21%**
300,000 and over	11	5
100 to 299,999	15	10
50 to 99,999	14	22
10 to 49,999	17	24
less than 10,000	25	28

One in five of the cities (21%) expect General Fund Spending to decline from 1986 to 1987. There is a consistent pattern in this, the smaller the city size, the greater the expectation of a general fund spending decline.

TABLE II-10

CITY SPENDING INCREASES OVER FIVE PERCENT BY REGION

Region	FY 85 to 86	FY 86 to 87
All Cities	**54%**	**56%**
Northeast	74	57
Midwest	49	57
South	55	48
West	56	65

TABLE II-11

SPENDING INCREASES OVER FIVE PERCENT BY POPULATION SIZE

Percent of Cities in Each Population Size Class Which Expect Spending to Increase by More Than 5%

Size Class	FY 85 to 86	FY 86 to 87
All Cities	**54**	**56**
300,000 and over	54	60
100,000 to 299,999	64	60
50,000 to 99,999	62	58
10,000 to 49,999	51	57
less than 10,000	50	46

There is a mixed pattern between the two time periods in this measure. While there is a slight increase overall in the number of cities expecting expenditure increases exceeding five percent, some population classes expect a slight decline while others a slight increase in this rate. No consistent pattern emerges.

When one looks at these cases where expenditure increases in 1987 are expected to exceed the higher figure of fifteen percent, an interesting pattern does emerge. As city size decreases, the percentage of cities expecting an expenditure increase exceeding fifteen percent increases.

TABLE II-12

SPENDING INCREASES OVER 15 PERCENT BY POPULATION SIZE

City Size	
300,000 and over	3%
100,000 to 299,999	14%
50,000 to 99,999	20%
10,000 to 49,999	24%
less than 10,000	25%

Looking at this high growth in expenditures on a regional basis another pattern emerges.

TABLE II-13

SPENDING INCREASES OVER 15 PERCENT BY REGION

Northeast	11%
South	18%
Midwest	20%
West	26%

The west and midwest have greater numbers of cities who expect very rapid expenditure increases followed by the south and northeast.

How do cities see their revenues matching up with expenditures?

Expenditures and revenues of municipalities are not independent of each other, but rather, interdependent. At times, tax and revenue policy will be consciously designed to underwrite expanded programs, and, at other times, natural revenue increases will permit program expansions, tax cuts, or attacks on backlogged capital spending needs. On the other hand, revenue decreases often force reductions in levels of service and spending levels. At other times, cities make conscious decisions to reduce revenues and provide a smaller package of service.

Most cities are required by state or municipal law to produce budgets that balance. This means total resources must exceed total spending. Resources include beginning balances and revenues not just revenue alone.

The first step in this analysis is to see just how current year revenues and expenditures match up without the consideration of beginning balances.

TABLE II-14

CITY GENERAL FUND EXPENDITURE/REVENUE RELATIONSHIP

Fiscal Year	**1985**	**1986**	**1987**
Expenditure exceeding Revenue	30%	35%	56%
Expenditure equaling Revenue	9	11	26
Expenditure less than Revenue	61	54	18
	100%	100%	100%

During 1987, fifty-six percent of the cities expect expenditures to exceed revenues. If this pattern is borne out in actual results, it will force the drawing down of beginning balances. This would represent a sixty percent increase from 1986 results. There is a natural pessimistic bent to city government budget so actual results in 1987 probably won't be quite this extreme. In order to guarantee a positive balance, revenue estimates must be conservative while expenditure requirements must be pessimistic.

Even when this predictable budgeting tendancy is discounted it is clear that this is not an optimistic trend.

It is particularly revealing to look at those fiscal years where actual results are being reported.

TABLE II-15

PERCENTAGE OF CITIES REPORTING EXPENDITURES EXCEEDING REVENUES IN GENERAL FUND BUDGETS

1984	1985	1986
24%	30%	35%

There is a clear, deteriorating trend presented in these figures. The 1984 figure is taken from last year's NLC Fiscal Conditions Survey. This trend is particularly disturbing when viewed against other trends: the beginning of renewed inflationary pressures, the fact that the full "bite" of general revenue sharing losses will take effect in 1988, and the number of states in tight fiscal situations which will have a spin off effect on the cities within them.

Another factor, which makes this trend even more important, is the large number of cities which report reductions in capital spending. Capital spending, particularly the smaller projects reflected in general fund budgets, is often used as a budget relief valve. The full cost of a capital project will be budgeted, but with planning, approval processes, and design processes the project may not be ready for contract award until the end of the fiscal year. If the budget is tight, the project award may be deferred. This deferral results in immediate savings, and this helps in budget control.

With lower levels of capital spending reported by cities, this means that greater portions of municipal budgets will be operating spending,primarily salaries and attendant fringe benefits, for municipal employees. These expenses are much harder to control as they are spent regularly over the course of the fiscal year. For example, if a budget reduction is required at the middle of a year, personnel cost reductions have to be "doubled". For example, if personnel costs are $1,000,000 with fifty employees (average cost $20,000) and a required savings of $100,000 is identified at mid-year, then a layoff of 10 employees is required, not five as might first be guessed, since the savings have to be realized in only one half year (1/2 x 20,000 x 10 = $100,000).

This simplified example does not even consider a variety of factors with which cities must deal, for example; minimum notice periods for layoff, varying salary levels, termination benefits, unemployment payments, and many other factors. Delayed spending decisions by the federal and state governments about levels of municipal assistance only make these problems more extreme.

Twenty-six percent of the cities expect revenues and expenditures to be in exact balance. This expected mathematical precision results from the fact that many communities are reporting budget expectations; actual results can be expected to show some variation. The fact remains that one quarter of the cities expect revenue and spending to be very close.

The General Fund Revenue-Expenditure Imbalance Index

What is the extent of the mismatch between current revenues and spending that is expected?

Because general fund budget sizes vary from city to city, it is necessary to reduce the revenue and expenditure figures to some common index. To do this for the most current year, 1987 expenditures are subtracted from 1987 revenues resulting in a basic imbalance. To translate this figure to a common comparative base, this basic imbalance figure is then divided by 1987 expenditures.

Thus, a city with $1,000,000 of revenue and $1,100,000 in expenditure would have an imbalance index of -9 percent. A city with revenues equaling expenditures would have an index of zero. A city with revenues of $1,100,000 and expenditures of $1,000,000 would have a positive index of 10 percent.

As an example, this concept, when applied to the federal budget equivalent of a city general fund budget for fiscal year 1986, produces an imbalance index of -37%. For the current 1987 fiscal year, the figure would be -32%. This index number dramatically shows the imbalance in the financing of general federal activities. (Source: NLC calculations based on Federal Fund Receipts and Expenditures (Excludes trust funds) Table C-2 "Special Analysis Budget of the United States Government Fiscal Year 1988" O.M.B.)

Since some budget variation is normally experienced, a review of the city figures after allowing for a five percent variation from absolute balance in the index in either direction may prove useful.

TABLE II-16

IMBALANCE INDEX 1985, 1986 AND 1987 PROJECTED

Imbalance Index	1985	1986	1987
Worse than -5%	11%	13%	26%
-5 to +5%	62	65	68
Better than +5%	27	22	6
	100%	100%	100%

$$*\text{Imbalance index} = \frac{\text{Revenue - Expenditure}}{\text{Expenditure}}$$

This tabulation, as would be expected, shows significant clustering around the middle values. The same negative trends identified before are also shown here. Twice as many cities expect an imbalance index exceeding five percent in 1987 as did in 1986. At the other extreme, only six percent of the cities expect a positive balance index exceeding five percent, a seventy-two percent decline from 1986. Again, the conservative estimating tendancies must be factored in. By looking at those years where data is final, the following patterns are shown.

TABLE II-17

PERCENT OF CITIES REPORTING REVENUE-EXPENDITURE IMBALANCES

	1984	1985	1986
Worse than -5%	8%	11%	13%
Better than +5%	33%	27%	22%

These rows show a continuing trend of deterioration although not as extreme as the earlier indication.

When viewed on a regional and city size basis, other trends emerge.

TABLE II-18

PERCENT OF CITIES IN EACH REGION WITH IMBALANCE INDEXES WORSE THAN -5%

Region	1985	1986	1987
All Cities	**11%**	**13%**	**26%**
Northeast	4	4	16
Midwest	8	15	26
South	11	12	19
West	15	14	35

The Northeast, Midwest, and West are the regions where the biggest increases in cities with negative imbalance indexes at this level are anticipated. It may appear counter intuitive to see these trends in regions where revenue growth has generally been strong in the past few years. This, however, just illustrates the interdependence of all these measures. Faster revenue growth has built up balances which allow for higher spending levels and produce more negative imbalance indexes.

On a size basis expected trends emerge.

TABLE II-19

PERCENT OF CITIES IN EACH POPULATION CLASS WITH IMBALANCE INDEXES WORSE THAN -5%

Size Class	1985	1986	1987
All Cities	**11%**	**13%**	**26%**
300,000 and over	3	0	8
100,000 to 299,999	6	12	17
50,000 to 99,999	7	9	26
10,000 to 49,999	13	15	27
less than 10,000	16	17	35

As city size decreases, the percentage of cities with imbalance indexes at this negative level increases. Because of the smaller absolute size of these jurisdictions, percentage changes can naturally be expected to show greater fluctuation. As was described in preceeding discussions, an increased imbalance index can indicate a deteriorating trend or program level expansion made possible by favorable experience in preceeding time periods.

In order to examine the entire picture, the third, and so far missing component of the budget balancing act, needs examination; this factor is the beginning balance.

Cushioning the Expenditure-Revenue Imbalance

As discussed earlier, the beginning balance in basic terms is the money in the General Fund at the beginning of the year.

There are two **MAJOR** cautions to be applied to this statement.

(1) Portions of the beginning balance may be restricted in their expenditure. As a result beginning balance funds are not completely available to deal with revenue expenditure imbalances.

(2) The balances are not all held in cash. They may represent taxes or other accounts receivable which are not readily available.

To the extent that cities have available beginning balances, they can be used to cushion a current year mismatch between revenues and expenditures.

When the level of beginning balances are drawn down in this manner, their ability to provide the same relief in subsequent years is obviously reduced.

How well are general fund beginning balances of cities equipped to deal with revenue-expenditure imbalances? The following table shows the distribution:

TABLE II-20

		PERCENT OF CITIES WITH 1987 BEGINNING BALANCES OF FOLLOWING SIZES WHEN MEASURED AS PERCENT OF EXPENDITURES						
	Total	Worse Than -15%	-15% to -6%	-5% to -1%	0	1% to 5%	5% to 15%	Over 15%
Percent of Cities	100	1	0	1	3	12	33	51

As the table shows, virtually all cities have positive beginning balances, and a majority of cities have beginning 1987 balances exceeding fifteen percent of expenditures. Because cities have an uneven pattern of expenditures it is necessary to maintain balances of some size. A fifteen percent balance is the equivalent of about two months spending if spending is assumed to be equally spread over the course of a year.

When examined on regional and population size bases different patterns are exposed.

TABLE II-21

SIZE OF 1987 BEGINNING BALANCE AS PERCENT OF EXPENDITURES BY REGION

Region	Worse Than -15%	-15% to +15%	Better Than +15%
All Cities	1%	48%	51%
Northeast	0	85	15
Midwest	1	44	55
South	0	50	50
West	1	45	54

TABLE II-22

	Size of 1987 Beginning Balance As Percent of Expenditures by Population Size		
Population Class	Worse than 15%	-15 to + 15%	Over +15%
All Cities	**1**	**48**	**51**
Over 300,000	1	91	8
100,000 to 299,999	0	67	33
50,000 to 99,999	0	53	47
10,000 to 49,999	1	38	61
less than 10,000	1	36	63

A number of factors are worthy of note from this table. First, as mentioned previously, the majority of cities have positive balances. Second, a small number of cities have negative balances exceeding negative fifteen percent. Third, as city size decreases, the percentage of cities with balances over 15% increases.

The largest cities, those over 300,000, appear to run on the thinnest margins when measured on this percentage basis. Of course,the absolute magnitudes will be large.

The trend of balances exceeding fifteen percent, increasing as city size decreases, can only be applied with some confidence to municipalities over 1000 population. There were virtually no respondents in this Survey from the very small communities under 1,000 population which constitute the largest number of U.S. municipalities.

To what extent will cities be drawing down on these "fiscal shock absorbing" balances during fiscal 1987?

In order to examine this question, one can look at the relationship between the beginning general fund balance in 1987 and the projected ending balance for the same year.

TABLE II-23

CHANGES IN GENERAL FUND BALANCES DURING 1987

Category of Change	% of Cities Reporting	
Reducing balance by more than 50%	19	
Reducing balance by 25 to 50%	16	62% Reducing
Reducing balance by 1 to 25%	27	
Maintaining balance	18	18 Maintaining
Increasing balance by 1 to 20%	14	
Increasing balance by more than 20%	6	20 Increasing
		100%

The first fact that emerges from this table is that sixty-two percent of the cities expect to draw down their beginning balances during the course of 1987 in order to finance the demands of the general fund budget. Only twenty percent of the cities expect to augment their general fund balances during the course of the year.

This downward path, while manageable and even appropriate for a few years, is not a trend which can be perpetuated.

If actual results bear out these estimates the future ability and adaptability of municipal general funds will be correspondingly reduced.

CHAPTER III

BUDGETARY ADJUSTMENTS

Cities operate in a complex and changing environment and the budgets of cities must adapt quickly to these changes.

Among the factors which often influence city spending and operating decisions are the following:

- The tax or spending limits imposed by state laws or constitutions.
- Growth or decline in community population.
- Changes in the level of funding from state and federal sources.
- Changes in local tax and other revenue collections.
- Expenditures mandated (required) by federal or state law or by court decision.

The Survey asked respondents to choose which, of eleven specified adjustment actions, their city had taken during the last year. The respondents were also asked to indicate which, of four listed factors, were influential in causing these actions. Changing levels of federal and state funds were often cited, but reflective of the diversity of city experience was the large percentage of the cities reporting "other factors" (other than changed state and federal funding) as influencing them to take the various budget adjustment actions.

The accompanying table summarizes the responses to this series of questions.

TABLE III-1

BUDGET ADJUSTMENTS REPORTED BY CITIES

		Percent Taking Specified Action that the Following was an Influential Factor**			
	Percent Reporting this action taken in Last Year*	Loss of GRS	Loss of other Federal Funds	Change in State Funds	Other Factors
1. Tax Rates Increased	38	70	10	18	54
2. New Taxes Implemented	12	49	7	8	61
3. Level of Non-tax Revenues Increased	58	39	9	9	68
4. New Non-tax Revenues (e.g., user fees) Created	11	49	12	6	60
5. Rate of Growth in Operating Spending Reduced	55	71	19	19	46
6. Capital Spending Reduced	52	81	16	11	24
7. Number of City Employees Reduced	26	53	21	22	52
8. Municipal Hiring Frozen	26	54	14	17	58
9. Service Levels Reduced	8	66	21	34	59
10. Services Shared with Other Jurisdictions	14	15	7	11	75
11. Services Contracted Out	28	19	4	4	76

* Results based on 530 respondents.

** Totals will sum to more than 100% because of multiple influemtial factors affecting many of the decisions.

Fifty-eight percent of the respondents reported that the level of non-tax revenue in their community has been increased in the last year. This response would include actions such as adjustments in user fee schedules. The upward adjustment of existing fees and other non-tax revenues appears clearly preferred to the imposition of entirely new fees which was done by only eleven percent of the cities.

The second most prevalent action by reporting cities, was a reduction in the rate of growth of operating spending. Over half, (55 percent) of the cities report that this has taken place in the past year. It can be speculated that the uncertain economy, delayed and uncertain federal budget process, as well as uncertainties introduced by the many state legislative sessions have served to influence this course of action.

The third leading course of action also reported by over half the cities, (52 percent) was a reduction in the level of capital spending. It is interesting that both operating spending and capital spending have been selected as adjustment routes. In the Area of operating spending, the phrasing indicates a "reduction in the rate of growth" or a moderated increase, while in the area of capital spending, it indicates a "reduction"; absolute decline. The relative magnitudes of these two courses of adjustment, unfortunately, cannot be judged from the results of the survey.

The next most prevalent course of adjustment was an increased tax rate, 38 percent of the cities reported such an increase. Elsewhere, in the report changes in property tax, sales tax and income tax rates are discussed more completely, and the reader is referred there for a more complete explanation of the specific adjustments which have been made in these three major tax sources. Respondents could also select this response if increases had been made to some other tax in their community. A few examples of other taxes would include, hotel-motel taxes or real estate transfer taxes.

As in the previous case of user fees, the increase of rates in existing taxes clearly appears preferable or more possible for the city officials than the implementation of new taxes. Only twelve percent of the cities report the initiation of new taxes. Thus, the increase of existing taxes was selected more than three times as often as the imposition of a new tax.

Another avenue of budgetary retrenchment reported by more than one quarter of the respondents, was actions affecting the number of municipal personnel. Another section of this report is also devoted to a fuller discussion of the patterns of municipal workforce change. Twenty-six percent of the cities report that during the last year, they have reduced the number of municipal employees. Twenty-six percent of the responding cities also report that they have implemented some type of a municipal hiring freeze. The duration and scope of these hiring freezes was not gathered by the Survey.

Another group of budgetary changes which cities report could be termed alternative service delivery and include contracting out services, sharing services with another jurisdiction, or simply reducing levels of services (reducing hours of operation or frequency of services).

Over one quarter of the cities, (28 percent) report that they have contracted out at least some services during the past year. Carefully selected, supervised, and monitored contracting is a popular and much discussed trend among cities. The survey does not disclose the magnitude of the contracting, the service areas in which contracting was done, or the type of contract selected. Though only about half as popular as contracting, fourteen percent of the respondents report the similar action of sharing services with another government jurisdiction.

The least little used adjustment was a reduction of service levels; only eight percent of the cities report an explicit reduction in service levels. While many of the previously listed actions, for example, reductions in levels of operating and capital spending or reductions in the municipal workforce may result in pressures toward actual service reductions, only a small number of the responding officials report conscious decisions to reduce levels of service.

While the mix of these actions and their phasing will differ from city to city to city when the total survey is reviewed, there seems almost a hierarchy of budget adjustment steps.

- First, a review and upward adjustment of existing non-tax revenues, reductions in capital spending, and restraint in operating spending.
- Second, an increase in the rates of existing taxes.
- Third, use of contracting, hiring freezes, and layoffs.
- Fourth, implementation of new taxes or fees and the sharing of services with other jurisdictions.
- Fifth, an explicit choice to reduce service levels.

What Were the Factors Including These Decisions?

Respondents were given four broad categories to characterize as influential factors in their budget adjustment actions. The factors were:

- Loss of General Revenue Sharing
- Loss of Other Federal Funds
- Changed Level of State Funding
- Other Factors

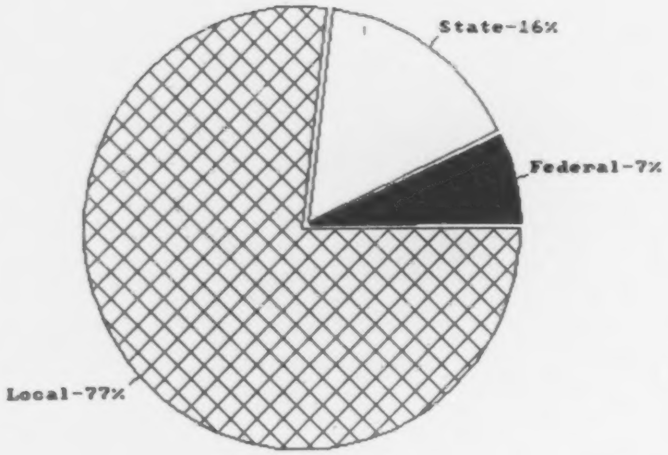
These factors, thus, breakdown into three areas federal funding, state funding and other primarily local factors.

To put the ensuing discussion in perspective, it is useful to see how important each of these three factors is to city revenues.

According to national data for the 1984-85 fiscal year, (the latest national data available) the following was the breakdown of city funding among federal, states and other (primarily local) sources.

FIGURE III-1

SOURCES of CITY REVENUE 1984-85



Of the federal money, general revenue sharing to cities was $2.5 billion or twenty-four percent. As part of the 1987 federal budget process, the Congress terminated the revenue sharing program with the last regular check mailed to cities at the end of September 1986. This, obviously, represents a significant proportion of federal funds for cities. An earlier NLC survey found that GRS was the only regular federal funding for seventy-three percent of the cities under 10,000 population.

State money is also a significant revenue source for cities contributing almost one-fifth of general city revenues in 1984-85. The level of state funding is more than twice that of federal funding and with the demise of general revenue sharing, will assume a greater relative importance.

The last group of influential factors was the large grouping of "other factors" which incorporates a whole variety of local conditions and influences.

If the responses are simply summed across all the questions, the following results emerge. The loss of GRS is mentioned as an influential factor in one of the decisions, forty-one percent of the time. "Other factors" are forty percent of the total, while state funding at ten percent, and other federal fund reductions at nine percent bring up the rear.

The Loss of GRS

The loss of GRS was cited by a large percentage of the respondents who took any of the listed actions. Even more significantly, it is an influential factor in those actions which were most often taken. Of those reporting lowered rates of growth in operating spending (fifty-five percent) -- seventy-one percent or almost three-fourth listed the loss of GRS as an influential factor. For those citing a reduction in capital spending (fifty-two percent) -- eighty-one percent listed GRS as an influential factor.

Seventy percent of those reporting tax rate increases (thiryt-eight percent did), credited GRS as being an influential factor.

Of those cities which implemented new taxes, created new charges or user fees (non-tax revenues), reduced city employees, implemented hiring freezes, or reduced service levels, forty-nine percent or more cited the loss of GRS as an influential factor.

Other Factors

"Other factors" were reported as influential factors in budget adjustments, almost as frequently as the loss of GRS. In fact, they were reported by a majority of the respondents taking nine of the eleven listed actions. **(see TABLE III-1)**

The other factors which the respondents described, show a great degree of variety. Among those items frequently cited are: adjustment of user fees or rate scheudles to more closely correspond with related costs, privatization or sharing of services for purposes of economy, community growth pressures, mandates, and sagging local economies.

Other factors were cited by seventy-six percent of the cities contracting out service and by seventy-five percent of those sharing services with other jurisdictions. Sixty-eight percent of the cities reporting an increase in the level of non-tax revenues cited "other factors" as being influential and sixty-one percent of those who implemented new taxes cited "other factors".

Changing Levels of State Funding

Changing levels of state funding was the third most cited influential factor by the cities. Thirty-four percent of the cities reporting a reduction of service levels cited this factor. Twenty-two percent of those reducing the number of city employees and nineteen percent of those reducing the rate of growth in operating spending, credited a change in the flow of dollars from the state capitol as being influential.

Changed state funding was also frequently cited as contributing to increased tax rates (18 percent) and municipal hiring freezes (seventeen percent).

The Loss of Other Federal Funds

The reduction of other federal funds (those other than general revenue sharing) was the factor least often cited as a reason for making any of the budget adjustments, but was mentioned by at least some of the respondents as contributing to all of the listed actions. **(See TABLE III-1)**

The loss of other federal funds was cited most often as a contributing factor to the slowing of operating spending (nineteen percent), the reduction of the municipal workforce (twenty-one percent), and the service level reductions (twenty-one percent). Reductions in capital spending were also attributed to losses of federal funds by sixteen percent of the cities who reported taking this action.

The cutbacks in federal grant funds have impacted on residents of cities. However, the functions, which were cut back previously like housing, community development, wastewater treatment, and transit, may often be handled by separate agencies, (housing authorities, economic development boards, or transit authorities) or state departments which are legal entities distinct from the city government.

Thus, the cutbacks in these functions were registered indirectly on cities through greater demands for assistance to the homeless, reduced transit services, or delays in meeting clean water standards. This can help explain the lower response to this question, particularly when it is remembered that for cities under

50,000 population, GRS was frequently the only direct, regular federal assistance received.

Tax Elections

One method, which cities use to make financial choices, is submission of an election issue to the voters. In some states there are requirements for voter approval to levy taxes or to increase the level of taxes. Even more frequently, state law or local charter provisions require that debt issuance and the taxes required to repay the debt must be approved by the electorate.

The surveyed cities were asked, "how many city measures involving taxes have been voted upon by the public in your city since January 1984?"

One-third of the cities reported that there had been at least one such measure submitted to the public. Overall, sixty-eight percent of the measures were approved and thirty-two percent defeated.

The frequency of putting such measures before the public varies as does the approval rate. The following table summarizes the results.

TABLE III-2

CITY TAX MEASURES
FREQUENCY AND SUCCESS RATE OF ELECTIONS*

Submitting The Following Number of Measures Since January 1984	Number of Cities	Total Measures Submitted	Measures Won	Measures Defeated	Success Rate
1	94	94	66	28	70
2	41	82	52	30	63
3	20	60	42	18	70
4	4	16	10	6	63
5	1	5	5	0	100
6	2	12	9	3	75
7	1	7	4	3	57
8	2	16	8	8	50
9	2	18	17	1	94
10	1	10	10	0	100
12	1	12	8	4	67
13	1	13	8	5	62
22	1	22	11	11	50
	171	367	250	117	68%

***Table based on 530 respondents.**

One conclusion that can be drawn from this data is the relative infrequency, at least for these cities, of submitting tax measures for a vote. Only one-third of the respondents report any measures, and of those who did, the average number submitted was less than one per year.

There appears to be no particular pattern of electoral success based on the number of measures submitted. It is particularly hard to generalize on this question, since only a small number of the cities have submitted more than three tax measures to the electorate over this time period.

Of the cities submitting only one tax measure during this three-year period, over seventy percent were successful. Of those cities submitting two measures, forty-nine percent won both measures. Twenty-nine percent of these "two-measure" cities broke even, winning one and losing one, while twenty-two percent saw none of their proposals approved.

Twenty cities reported having three tax measures before the public. Of these cities, forty-five percent won all their measures, twenty-five percent batted .666, winning two of three, twenty-five percent won one measure, and one city lost all three measures submitted.

The survey did not ask for a description of the type or size of measures submitted. As a result, a further analysis of the types and kinds of measures is not possible based on the data gathered in this survey.

CHAPTER IV

THE LOSS OF GRS

General revenue sharing funds were distributed to cities and other units of local government and could be used for virtually any legal local expenditure.

As part of the 1987 federal budget process, this program was terminated. The last regular check was mailed in September 1986.

Because of the variation in local fiscal years, the impact on city cash flow varies from city to city. The following table shows the percentage of GRS which would be received by a city for the fiscal year ending in 1987.

TABLE IV-1

PERCENT OF GRS RECEIVED FOR CITIES WITH FISCAL YEAR ENDING IN DIFFERENT MONTHS

Month Fiscal Year Ends	Percentage of Cities Reporting this Fiscal Year	Percent of GRS Received in 1987 Budget
April	3	75
June	47	50
July	2	25
September	16	-0-
December	29	-0-
Other	3	NA
	100	

Note: This table assumes the use of cash revenue accounting and ignores the percentage cuts made to GRS in Fiscal Year 1986.

Thus, half of the cities in this survey are receiving half or more of their revenue sharing during the 1987 fiscal year. The 1988 fiscal year is when the reduction will fully impact these jurisdictions.

The respondents were asked to "indicate how significantly the loss of GRS (General Revenue Sharing) will affect each of the following city spending areas by circling one number on each scale." The scale went from one "no impact", to ten, "significant impact". Respondents were also given an opportunity to indicate that the particular service was not offered by their city.

The area which emerged as the one with the heaviest impact was capital outlay. Forty-four percent of the respondents said that the loss of GRS would "significantly impact" (ranked eighth, nineth or tenth) capital spending in their city. The average score on this item was 6.0.

A number of the cities indicated difficulty in specifying the functional areas impacted since they considered general revenue sharing to be general revenue. They, thus, characterized the impact of the loss of GRS as being "across the board". Over one-fifth of the cities said that there would be a significant impact on public safety (Police & Fire) twenty-two percent and public works and park operation eighteen percent.

The results for all service areas are summarized on the accompanying table.

TABLE IV-2

THE LOSS OF GRS: WHAT AREAS WILL BE AFFECTED*

Service Area	Percent of Cities in Which Service is Provided by City	The Impact of the Loss of GRS (In Percentages)**		
		No or low Impact (1, 2 or 3)	Moderate Impact (4, 5, 6 or 7)	Significant Impact (8, 9 or 10)
Capital Outlay	97	29	27	44
Public Safety	97	44	34	22
Public Works and Parks Operations	96	43	39	18
Recreation and Libraries	88	52	37	11
Debt Repayment	86	86	9	5
Pensions	79	91	7	2
Social & Health Services to Aged	57	59	26	15
Social & Health Service to Youth	55	63	26	11
Social and Health Services to Poor	49	63	25	12
Education	32	83	12	5
Other	14	59	12	29

* Table based on 530 responses

**The impact percentages in each row sum to one hundred percent; the actual number of respondents can be gauged by looking at the percentage of the respondents who report providing the service. For example, the twenty-two percent reporting a significant impact on public safety (a service which ninety-seven percent of the cities provide) represents a greater number than the twenty-nine percent reporting a significant impact for "other", since only fourteen percent of the respondents provided this service compared to ninety-seven percent on public safety.

Will State Government Take Action To Cushion the Loss of GRS to Cities?

Cities are created pursuant to state laws and regulations, thus many would consider it a state government responsibility to assist cities to cope with the loss of federal aid and other fiscal problems. The capacity of state governments to respond is limited by the financial circumstances in which they find themselves.

According to the March 1987 "Fiscal Survey of the States" conducted by the National Governors Association and National Association of State Budget Officers, twenty-three states were forced to cut their already enacted 1987 budgets to avert pending deficits.

What do the cities in this survey report their states are doing?

There are further signs of state fiscal difficulty. According to the same survey, total state year-end general fuel balances are equal to 2.6% of expenditures. The comparable 1987 figure is estimated to be only 0.8% of expenditures. This becomes even more worrisome when it is realized that over sixty percent of the aggregate balance is held by two states, California and New Jersey. If these two states are removed from the calculation, the 1987 figure is 0.4%. The state budget environment does not appear hospitable for the enactment of municipal financial assistance.

- Sixty-five percent of the cities report that their state is providing the same level of assistance as in the past, no increase.

- Nineteen percent of the cities report that their states is actually providing a lower level of assistance.

- Not a single city reports that regulations or restrictions imposed on cities have been reduced.

- Six percent of the cities report that their state government has authorized cities to impose new taxes but only with the approval of local voters.

- Six percent of the cities report that their state government has authorized cities to impose new taxes without requiring approval of the local voters.

- Only three percent of the cities report that their state is making more revenue available to help replace GRS.

Cities in only a few states report that their state is stepping in to replace the loss of GRS. Many state legislatures are still in session as this report is written so a few additional states may act to provide increased fiscal assistance.

Information developed as a result of the survey indicates that the following states have taken steps to cushion the blow to cities resulting from the loss of GRS.

TABLE IV-3

PERCENTAGE OF CITIES LOCATED WITH ACTUAL OR POTENTIAL GRS REPLACEMENT PROGRAMS

PERCENT OF TOTAL U.S. MUNICIPAL

State	Jurisdictions	Population	Expenditures	Size of Program as Percent of GRS
State with enacted Programs				
Connecticut	0.2	0.9	1.3	66
Idaho	1.0	0.4	0.2	--
Massachusetts	0.2	1.9	3.3	--
North Carolina	2.5	1.8	1.6	—
Subtotal - (Enacted)	3.9%	5.0%	6.4%	NA
States with pending programs				
Delaware	0.3	0.0	0.2	70
Illinois	6.7	6.8	4.0	50
Total enacted and Pending	10.9%	11.9%	10.6%	NA

At least two lessons can be drawn from this information. First, the cities potentially covered by these programs (if both the pending programs listed are enacted) will affect only about eleven percent of U.S. cities, whether measured on a jurisdiction, population, or expenditure basis.

Second, there are large variations in the programs as illustrated by the following brief summary of each of the programs.

Connecticut: A program was enacted by the state legislature, which will convert an infrastructure trust fund into a program of general aid for municipalities. The funds will be distributed on a needs based formula which includes per capita income, population, and property tax effort.

Delaware: Delaware has a proposed replacement program authored by Governor Michael Castle and passed by one chamber of the legislature. At the time this report is written, final passage was anticipated.

The funds would be distributed on the same formula used for GRS. The program is proposed at a figure of eight million dollars which would thus replace about seventy percent of the GRS loss to Delware cities and other general purpose local governments.

The proposal is only included in the proposed budget for one year so continuation is not guaranteed.

Idaho: In 1984 the state legislature enacted a city county revenue sharing program providing cities and counties with 6.2 percent of the total funds collected by the statewide four cent sales tax. In 1986, in response to state budgetary problems, a "temporary" increase in the sales tax rate to five percent was enacted, but cities and counties did not share in the increased revenue.

In 1987 the state enacted legislation making five percent sales tax permanent, allowing localities to share in the increased collections and raising the share dedicated to the city county revenue sharing program to 7.75 percent. These changes result in roughly a fifty percent increase in the funding of this revenue sharing program.

The funds are distributed half on the basis of assessed value and half on the basis of population.

Massachusetts: The Massachusetts legislature has taken an existing state revenue sharing program, doubled its size, and modified the distribution formula. Under the legislation, the program size is increased from $60 to $130 million.

The money will be distributed based upon a complex twenty-five factor formula. Under the program some communities may see up to a ninety percent replacement of GRS funds, while others will only receive thirty percent.

North Carolina: In 1986 North Carolina made an additional half cent local option sales tax available at the discretion of counties. All but a few of North Carolina's counties elected to levy this tax. The distribution of the tax receipts are based on assessed valuation and population.

North Carolina now has a four tier sales tax system totaling five cents.

Illinois: The Governor has proposed a package of tax increases with a portion of the funds to be shared with local governments. This package may produce revenue for city governments.

- An income tax increase of one-half of one percent of which cities and counties receive one-twelfth. This is distributed on a per capita basis which would produce approximately four dollars per capita for cities.

- A gas tax increase of five cents per gallon of which local governments would receive about thirty-five percent. This would also yield about four dollars per capita. This would increase the state gas tax in Illinois from thirteen cents to eighteen cents.

For comparison, GRS provided an average of about fifteen dollars per capita, for residents of Illinois Municipalities (Chicago received about twenty-one dollars per capita) additional amounts were also paid to counties and townships. This proposal has not been adopted as this paper is being written. This is part of a larger effort to raise state revenue and happens to include these two revenue sources in which Illinois municipalities have traditionally shared.

CHAPTER V

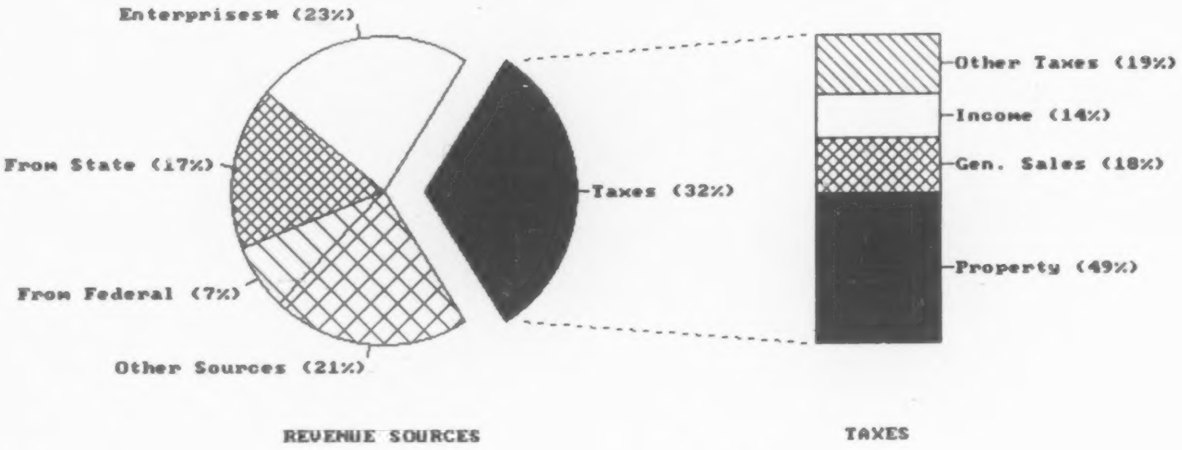
MAJOR CITY TAXES--"THE BIG THREE"

Municipal governments had revenues of $147.7 billion dollars in Fiscal year 1984-85.

This revenue was composed as shown in the following graph:

FIGURE V-1

CITY GOVERNMENT REVENUE
FISCAL YEAR 1984-85



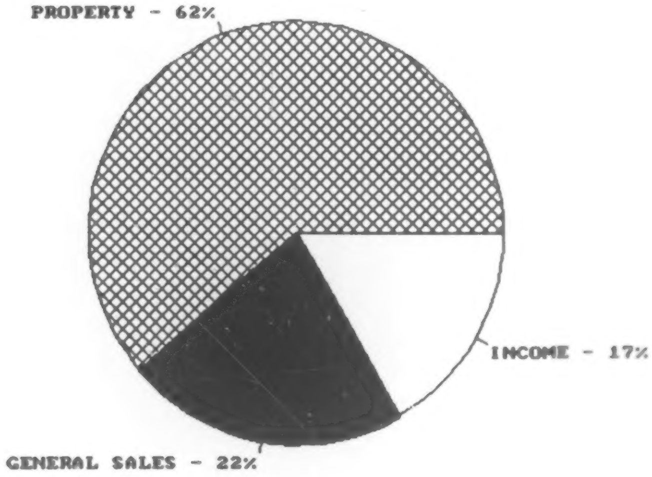
*Includes utilities, liquor sales, retirement
Source: "Governmental Finances in 1984-85",
U.S. Census (Dec. 1985) Table 29

As the graph shows, taxes were thirty-two percent of municipal government revenues; the property, sales, and income taxes were the biggest individual sources of this tax revenue.

When only these "big three taxes are examined, the following distribution is produced.

FIGURE V-2

CITY TAX COLLECTIONS from "BIG THREE TAXES" PROPERTY, SALES, and INCOME - FISCAL 1985



U.S. CENSUS BUREAU

As a share of the "big three taxes", the property tax has declined from seventy-two percent of the total to sixty-one percent while the relative shares of the income and sales tax have grown, not only because of increases in income and spending but also because greater numbers of jurisdictions are now using these latter two taxes.

The survey asked the respondents for a three year history of the rates of these taxes and the revenues collected. The cities were also asked about their authority to levy these taxes and the existence of state limits on the rates of these taxes.

Consistent with the preceeding discussion, the property tax is the most widely reported tax used by the responding cities.

Ninety-five percent of the cities report the receipt of property taxes as the highest of any of the "big three taxes". Seventy-seven percent of the cities report that their state places a limit on the rate of the property tax for operating purposes. Of the cities who report a state ceiling on operating property tax rate and also report 1987 property tax collections, forty-three percent report that they are at the maximum rate permitted.

The sales tax is the next most frequently used tax by the responding cities. Fifty-five percent of the cities report sales tax collections in fiscal 1987. Sixty-six percent of these cities report that their state places a cap or ceiling on the rate of the city sales tax. Of the cities who report a state limit on the city sales tax and also report 1987 sales tax receipts of eighty percent, report that they are at maximum sales tax rate permitted by their state.

Only twelve percent of the cities report income tax collections during the 1987 fiscal year. Twenty-eight percent of these cities report an income tax cap imposed by state law. Of the cities which report 1987 income tax collections and a state cap on the city income tax, ninety-three percent report that they are levying the maximum allowable rate.

These major taxes are used both singly and in combination. Fifty-nine percent of the responding cities use two or more of these major taxes, and forty-one percent use only one such tax.

41% of the cities use only one of the "big three taxes":

only the property tax	36%
only the sales tax	5%
only the income tax	less than .5%
Total	41%

56% of the cities use two of the "big three taxes":

property and sales	47%
property and income	9%
sales and income	none reported
Total	51%

3% of the cities use three of the "big three taxes":

property, sales and income	3%

PROPERTY TAX

The property tax is the most widely used tax by U.S. municipalities and is also the single largest tax source. The property tax consists of three elements: (1) the property tax rate, (2) the assessed value or base against which the rate is applied, and (3) the property tax levy, which is equal to the rate multiplied by the assessed value.

"Have property taxes been raised?" This question can be interpreted in a variety of ways.

If the question means: Has the amount of the levy gone up? A variety of circumstances can yield this result.

(1) the rate went up, while assessed taxable values increased, held constant, or declined (but not by a large enough percentage to offset the rate increase)

(2) the rate remained constant, while assessed values increased.

(3) the rate declined, but assessed values increased sufficiently to cause the levy to increase.

To get at these issues, this survey asked respondents to provide a three year history of four items related to property taxes.

1. The city government imposed property tax rate on a single family residential property.
2. The total tax rate imposed on a single family residential property. This would include the city imposed rate as well as any additional property taxes imposed by other overlapping tax jurisdictions such as county, school, and other special districts.
3. The taxable assessed valuation of all property in the city.
4. The property taxes collected by the city.

Using these measures, one can examine most of the major elements of the city property tax equation.

There are, however, some other factors to property taxation which this survey does not examine.

1. Changes in the assessment ratio. Many local laws require that property be assessed or valued at one hundred percent of true market value for purposes of property taxation. However, it is also common for assessed value to be established at some other level: for example, twenty-five percent, thirty percent, seven percent, or some other figure.

2. The effect of property reappraisals. Regardless of the ratio selected, the actual level of property assessment is dependent on the frequency and quality of tax assessment practices. For example, if property values are only adjusted every four years, there will be lags and jumps in the assessed value of the community.

3. The survey did not inquire about the classification of assessment rolls. Under a system of classification, real property is divided into classes. For example: single family residential, multifamily residential, commercial, and industrial. Once this classification is arrived at, one or both of the following steps may be taken: 1) The ratio of "true" to "taxable" value may differ from class to class. For example, single family residential property may be valued at twenty-five percent, while industrial property might be valued at one hundred percent. 2) The

nominal tax rates may differ from class to class. For example, residential property might have a tax rate of ten dollars per thousand dollars of taxable value, while industrial property might have a tax rate of twenty-five dollars per thousand dollars of taxable value.

4. A fourth area, not investigated by the survey, was the existence of various exemptions or property tax relief programs. These programs some of which are linked to state income taxes provide for various amounts of exemptions, credits, or other relief from property taxes.

5. The existence of split roll or land value taxation systems was also not a subject of this inquiry. Under this type of system the land portion of the assessment is taxed much more heavily than the improvements on the land. This type of real property taxation has been advocated by some as encouraging the optimal development of land.

In order to fully understand the impact of property taxes on a jurisdiction and its citizens, all these factors are important. Nevertheless, this survey still provides a useful snapshot of municipal property taxation.

While property tax collections are influenced by collection time schedules and delinquencies, they are driven by the relationship between taxable value and tax rate. Based on the relationship between these two factors, the property tax levy and ultimately property tax collections can go up or down.

For 1987, the following matrix displays the various relationships that cities in this survey report.

TABLE V-1

1987 RELATIONSHIP BETWEEN PROPERTY TAX RATE AND PROPERTY TAX COLLECTIONS

	Property Tax Collections			
City Property Tax Rate	Decrease	Held Constant	Increase	Total
Decrease	7%	*	15%	22%
Held Constant	6%	4%	28%	38%
Increase	2%	1%	37%	40%
Total	15%	5%	80%	100%

* less than 1/2 of one percent.

This chart provides a number of pieces of information. Reading down the far right hand column shows that twenty-two percent of the cities decreased their property tax rate, thirty-eight percent held the rate constant, and forty percent of the cities decreased the rate of tax.

Reading across the bottom row shows that fifteen percent of the cities expect to see their property tax collections decline during 1987. Five percent expect their property tax collections to be constant and eighty percent expect to see their property tax collections increase.

A. Cities Expecting 1987 Property Tax Collection Decline

Each of the rows and columns in this basic chart also yield additional perspective. Of cities experiencing property tax collection declines, forty-seven percent (7/15) of those projecting property tax collection declines also decreased their city tax rate. Forty percent of these cities (6/15) expect to see their property tax collections decline.

Thirteen percent (2/15) expect to increase their city property tax rate and still experience a decline in property tax collections.

Cities who place themselves in these latter two categories may be seeing actual declines in taxable value or be projecting an increase in delayed or delinquent payment.

B. Cities Expecting No Change in 1987 Property Tax Collections

Eighty percent of the cities expecting property tax collections to be constant are also holding their property tax rate constant. By inference the taxable property in these communities is also constant. The remaining twenty percent of these cities have been required to increase their property tax rate just to hold property tax collections level.

C. Cities Expecting An Increase in Property Tax Collections

Forty-six percent of these cities are increasing their tax rates and expect to see an increase in property tax collections as a result. Thirty five percent of these cities are holding their tax rates constant but expect to see an increase in property tax collections. By inference, it can be supposed that these cities are experiencing an increase in assessed value or some other factor which will accelerate the payment of property taxes. The remaining nineteen percent of these cities are seeing decreased property tax rates and still project an increase in property tax collections.

With this basic context, we can now proceed to examine the changes in property tax collections, city imposed property tax rate, and property tax collections.

TABLE V-2

PERCENTAGE OF CITIES WITH THE FOLLOWING CHANGES IN PROPERTY TAX ELEMENTS

City Property Tax Rate	1985 to 1986	1986 to 1987
Decline more than 5%	17%	10%
Decline 1-5%	11	11
No change	38	40
Increase 1-5%	14	16
Increase more than 5%	20	23
	100%	100%

Assessed Property Value	1985 to 1986	1986 to 1987
Decline more than 5%	2%	3%
Decline 1-5%	8	7
No change	6	6
Increase 1-5%	34	43
Increase more than 5%	50	41
	100%	100%

Property Tax Collections	1985 to 1986	1986 to 1987
Decline more than 5%	6%	5%
Decline 1-5%	6	8
No change	5	6
Increase 1-5%	28	29
Increase more than 5%	55	52
	100%	100%

A number of facts emerge from these three tables:

1. Of the three elements, city property tax rates are the most stable. Roughly forty percent of the communities indicate no change in this

item. One reason is the large number of communities who reported earlier that they are at the state imposed limit for property taxes.

2. The patterns of change, at least when aggregated in these large categories, have remained relatively consistent between the two years.

3. More than half the communities expect their property tax collection to increase by more than five percent. At least one caution must be applied to this fact, some portion of these increases may be required to service previously issued debt or other commitments. The portion of this money which will flow to the general operating budget is not available from the survey data.

4. Almost one fifth (19%) of these property tax communities expect to see their property tax collection exactly the same or actually decline during 1987.

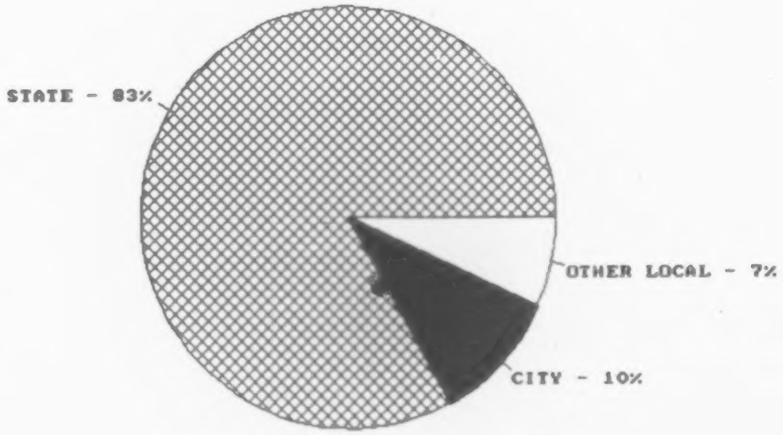
Sales Taxes

General sales taxes are the second most frequently used tax among the "big three taxes" by U.S. cities. According to 1985 statistics, it was used by 5,445 municipalities or approximately thirty percent of all municipalities and produced $8.5 billion dollars for municipal treasuries. It was utilized by cities in twenty-two states.

The following graph shows the relative collection of this tax by the state, city, and other local governments. The federal government currently levies no general sales tax. It does, however, levy a number of selective sales (excise) taxes, such as those on gasoline and liquor. These selective sales taxes are also extensively used by state governments and often shared with cities.

FIGURE V-3

GENERAL SALES TAX COLLECTIONS
by LEVEL of GOVERNMENT
FISCAL YEAR 1985



source:U.S. CENSUS BUREAU

When compared to property taxes, there is much less adjustment of city sales tax rates during the course of a year. This is a natural result of at least two factors.

First, a large percentage of the cities report that they are already at the maximum city sales tax rate allowed by state law, thus no increases would be possible. In some states such as Texas and California, the city sales tax is an "all or nothing at all" proposition either levy the tax at a rate of one percent with state administration or levy nothing. There is no option to go to a lower or higher rate. These two states, by themselves, contain eight percent of all municipal governments and twenty-one percent of all municipal population.

Second, the sales tax rate is inherently more cumbersome to adjust than the property tax rate. First, because there are a great many merchants who must be informed. Second, because sales tax administration is not focused on annual adjustments like property tax administration. Third, because the fine tuning of sales tax rates is difficult: less frequent but larger adjustments, such as one to two cents, are less cumbersome than a series of smaller rate changes which are expressed in millions of a dollar.

The following table, based on the survey responses, demonstrates this infrequent adjustment pattern.

TABLE V-3

PERCENTAGE OF CITIES MAKING SALES TAX RATE CHANGES

Type of Change	1985 to 1986	1986 to 1987
Decrease rate	1%	0%
No change	91	94
Increase Rate	8	6
	100%	100%

Of the increases, which were made in the first period (1985 to 1986), almost half occurred in North Carolina where there was a special change in state, enabling legislation. Likewise, in the second period half of the changes again occurred in North Carolina for the same reason.

When one moves to examine the changes experienced in sales tax collections, there is a much greater variety in the patterns of change.

TABLE V-4

PERCENTAGE OF CITIES REPORTING CHANGES IN SALES TAX COLLECTIONS BY CATEGORY OF CHANGE

Category of Change	1985 to 1986	1986 to 1987
decrease over 5%	10%	8%
decrease 1-5%	14	12
no change	4	8
increase 1-5%	26	36
increase over 5%	46	36
	100%	100%

Over one quarter of the cities (28%) in both time periods report that their sales tax collections are absolutely flat or declining.

Seventy-two percent of the cities in both time periods report an increase in collections, but there is a noticeable "down shifting". More cities report slow sales tax growth in the one to five percent category. Less cities report sales tax growth in the high growth category exceeding five percent.

The survey did not ask for information on the base of the sales tax; the amount of retail sales. It is interesting to review the federal statistics on retail sales.

TABLE V-5

ANNUAL PERCENT CHANGE IN U.S. RETAIL SALES

Year	% Change	Year	% Change
1975	8.7	1981	8.5
1976	11.8	1982	3.0
1977	10.3	1983	9.5
1978	11.2	1984	10.1
1979	11.4	1985	6.3
1980	6.7		

Source: U.S. Bureau of The Census

These figures can be compared with a community's sales tax collections to see how closely they resemble the national pattern. Changes in sales tax rates or coverage of the tax as well as state laws, which "cap" sales taxes on individual transactions or exclusions from the tax base, will account for some of the variation.

City Income Taxes

The income tax is the least used of the "big three taxes" by U.S. municipalities. According to 1985 statistics, it is only used by about eight percent of all American cities.

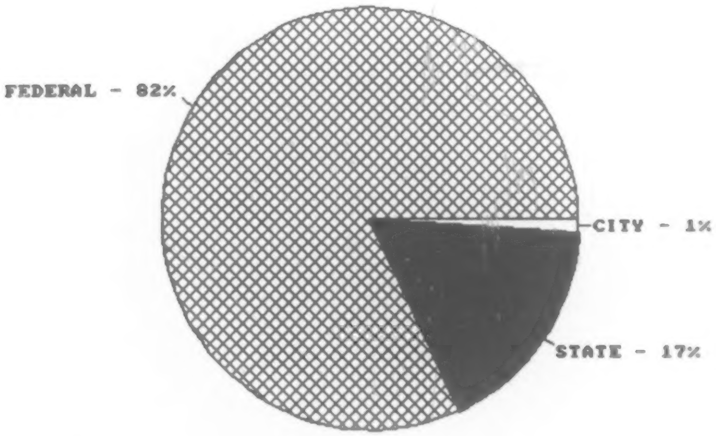
Ninety-eight percent of all of the 1,585 U.S. cities that use this tax are located in three states; Ohio, Pennsylvania, and Kentucky.

Outside of usage in these states, income taxes are usually collected in only the largest cities within each state. In 1983-84, $5.9 billion in municipal income taxes were collected in New York City. New York City's collection alone, represented forty-six percent of total municipal income tax collections in this year. New York City, plus the next nine cities in population size who utilize this tax, collected seventy-nine percent of the total.

These statistics demonstrate that this tax is used in a limited number of states and a few cities collect the majority of the revenue from it.

The following graph shows the relative amounts of the income tax as levied by federal government, state governments, cities, and others.

INCOME TAX COLLECTIONS by LEVEL of GOVERNMENT
FISCAL 1985



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Generally, city income taxes are flat (single rate) taxes levied on earned income only and lacking the variety of credits, exemptions, exclusions, and deductions common to the federal and state tax codes. New York City and Washington, D.C. are exceptions to this generalization; their structures are more analogous to state income tax systems.

As with the sales tax, there is a low frequency of changes to municipal income tax rates. Of the fifty-three cities who reported their income tax rates, only four (8%) indicated that a rate change was made from 1985 to 1986. Out of fifty-five cities, only six, (11%) reported income tax rate changes between 1986 and 1987. The survey did not explicitly inquire about tax base changes which serve as another way to increase income tax receipts.

The changes in income tax collections exhibit greater variation.

TABLE V-6

PERCENTAGE OF CITIES REPORTING CHANGE IN INCOME TAX COLLECTIONS

Category of Change	1985 to 1986	1986 to 1987
Decline more than 5%	7%	5%
Decline 1-5%	10	11
No change	3	3
Increase 1-5%	36	40
Increase exceeding 5%	44	41
	100%	100%

While over forty percent of the cities expect to see increased income tax collections exceeding five percent, roughly twenty percent of the cities expect their income tax collections to be absolutely flat or even decline.

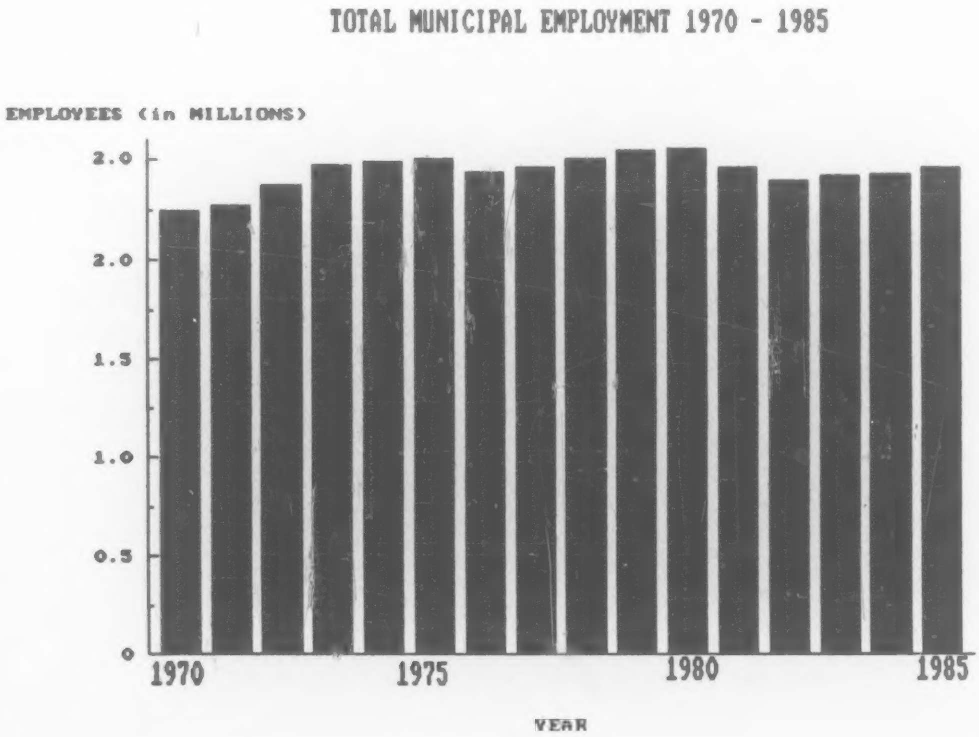
CHAPTER VI

CITY PERSONNEL

One of the largest elements of city government programs is the employment of personnel. While there have been moves by some city governments to contract out or "privatize" services, the level of city employment and changes in municipal employment are indicators of a city government's ability to provide services.

The cities were asked to provide a three-year history of municipal employment. Before reviewing the survey responses, it is useful to review the recent history of municipal employment as documented by the U.S. Census.

FIGURE VI-1



U.S. CENSUS BUREAU, "City Employment in 1985"
1983"

As the previous graph shows, there was a fairly steady rise in the total number of individuals employed by municipal governments until 1980, when a three-year decline began. According to these statistics, total city employment is still below the level which existed in 1973.

Changes in employment have varied by city size. For example, while overall city employment, from 1980 through 1985, was down four percent, the fifty cities over 300,000 population actually saw a two percent increase. Those cities between 50,000 and 300,000 population saw a twelve percent decline, while cities under 50,000 saw a four percent decrease.

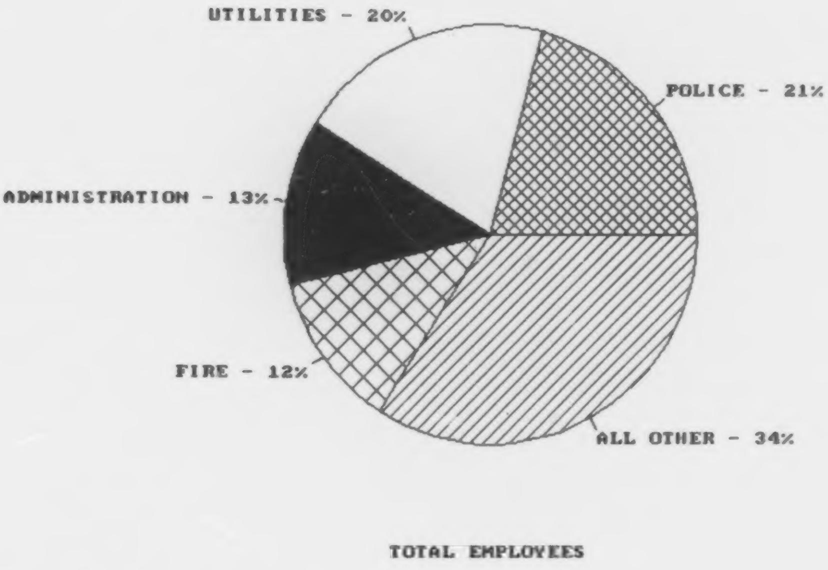
There is also significant variation among cities of the same population class; while San Antonio showed a twenty-three percent increase in city workforce over this period, the city of Detroit's employment decreased ten percent. There are a number of factors which account for these variations, including differing population growth and annexation patterns, as well as differing mixes of full and part-time employees. The ratio of employees to population also varies. While San Antonio's municipal employee growth rate far outdistanced Detroit's decline, Detroit's ratio of city employees per 1,000 residents still stands twenty-four percent higher than San Antonio's (18.7 employees per thousand in Detroit, compared to 15.1 employees per thousand in San Antonio).

The mix of municipal employees also differs by city size class. Overall, while only about 250 out of the United States' 19,000 municipalities (1.3 percent) operate school systems, education employment is almost fifteen percent of total municipal employment and is second only to police at seventeen percent. A similar pattern, small number of larger jurisdiction providing the service, also exists in the operation of municipal hospitals. It is, thus, more instructive to look at the mix of municipal employment by removing education and hospital operation so the figures are more comparable. The figures which follow are all reported after this adjustment.

The accompanying graph shows the mix of municipal employment when these two adjustments are made. Police employment leads the way, twenty-one percent of all municipal employees are police employees, followed closely by the combined category of sanitation, sewerage, and municipal utility systems at twenty percent, general administration (including finance) checks in at thirteen percent, followed by fire protection at twelve percent.

FIGURE VI-2

TOTAL MUNICIPAL EMPLOYMENT by FUNCTION 1985
(excludes hospital and education employees)



U.S. CENSUS BUREAU, "PUBLIC EMPLOYMENT in 1985"

On a population size basis, the largest cities (those over 300,000 population) have essentially the same number of employees (non-education and hospital) as all cities under 50,000.

TABLE VI-1

TOTAL MUNICIPAL EMPLOYMENT BY CITY SIZE

City Population Size	October 1985 Total Employees	Percent of Total
300,000 and over	814,523	39
50,000 to 299,999	462,949	22
under 50,000	825,196	39
	2,102,668	100

When the mix of municipal employment is evaluated on a population size basis, the following pattern emerges:

TABLE VI-2

PERCENTAGE COMPOSITION OF MUNICIPAL WORKFORCES BY POPULATION SIZE OF CITY

	In Cities over 300,000	In Cities from 50,000 to 299,999	In Cities Under 50,000
Fire	8	14	15
Administration	8	10	18
All Other	38	30	20
Police	19	22	21
Transportation	6	7	8
Utilities	21	17	18
	100%	100%	100%

Fire department employment is a much higher proportion of the municipal workforce in cities under 300,000, which reflects the greater diversity of functions in the larger communities.

Administration becomes a progressively, larger proportion of the city workforce as the population declines. This may reflect the more centralized support functions in smaller cities, while in larger communities, administrative functions are carried out at a department level with administrative positions being reported in the functional categories.

The "all other" category decreases in size as the city size decreases, and this fits the generally expected pattern of greater variety of services offered in the larger cities. The other areas exhibit a fairly consistent share of employment, regardless of city size, when divided into these major categories.

What Did The Survey Find?

This survey, while it cannot claim the comprehensiveness of the Census data, can offer some clues to the changes in municipal employment since October 1985, the latest Census data that is available and which was the basis of the preceeding discussion.

Cities were asked one basic personnel question which was a three-year history of municipal employment. The three years specified were the city's fiscal year ending in 1985, fiscal year ending in 1986, and the fiscal year which will end in 1987.

TABLE VI-3

MUNICIPAL PERSONNEL CHANGE
PERCENTAGE OF CITIES REPORTING CHANGES

	1985 to 1986	1986 to 1987
Decrease	27%	28%
Held Constant	19	25
Increase	54	47
	100%	100%

The first finding, that emerges in both time periods, is that over one fourth of the cities are reducing the number of personnel.

Roughly one half of the cities are just holding constant or reducing levels of employment.

At the same time, about one half of the cities are making some additions to the municipal work force.

A slight slowdown between the two periods is also evident as slightly greater percentages of cities are now holding their municipal employment steady or reducing it than in the earlier (1985 to 1986) time period.

If one allows for a five percent variation in employment levels the same pattern is demonstrated.

TABLE VI-4

MUNICIPAL EMPLOYMENT PERCENT OF CITIES REPORTING CHANGES

Change in City Employment	1985 to 1986	1986 to 1987
Decline more than 5%	5%	7%
Between -5% and +5%	80	82
Increase more than 5%	15	11
	100%	100%

Slightly fewer jurisdictions are making reductions or occupying the middle range. At the same time, fewer cities are increasing employment rolls over five percent.

When regional and size classification are added to the analysis the following distributions are revealed.

TABLE VI-5

PERCENT OF CITIES IN EACH REGION REPORTING DECLINES IN MUNICIPAL EMPLOYMENT

	1985 to 1986	1986 to 1987
Total	**27%**	**28%**
Northeast	44	41
Midwest	28	29
South	29	29
West	23	20

Just as the total figures for the two years are consistent, so too are the regional figures. The number of cities in the Northeast reducing employment appears substantially higher than in the other regions, but in view of the small sample from this area it must be interpreted with great caution. At the same time, communities in the West seem somewhat less prone to reduce employment than the other regions.

On a population size basis again, there is a high degree of consistency between the two time periods. The exception to this statement is among the largest communities where almost twice as many are reporting personnel reductions.

TABLE VI-6

PERCENT OF CITIES REDUCING EMPLOYMENT WITHIN EACH POPULATION CLASS

Population Size	1985 to 1986	1986 to 1987
Total	**27%**	**28%**
over 300,000	17	30
100,000 to 300,000	23	25
50,000 to 99,999	25	29
10,000 to 49,999	30	28
less than 10,000	31	26

While there is a small number of cities over 300,000, they employ roughly forty percent of all municipal employees; so this change could be a significant influence on overall municipal employment. When cities that are increasing municipal employment, are examined other patterns are exposed.

When examined on a regional basis, one first sees relative consistency between the two periods with an overall thirteen percent decline in the percentage of cities adding employees. There is a slowdown in all regions.

TABLE VI-7

PERCENTAGE OF CITIES IN EACH REGION REPORTING INCREASED CITY EMPLOYMENT

	1985 to 1986	1986 to 1987
Total	**54%**	**47%**
Northeast	31	28
Midwest	44	39
South	57	52
West	64	58

The table also shows a regional pattern which is consistent in both time periods. The West has the greatest percentage of cities adding employees followed closely by the South. The Midwest and Northeast trail in this pattern.

When examined on a population size basis there are significantly fewer cities above 100,000 population that are currently adding employees. The only size classification in which there is an increased percentage adding employees is in the 10,000 to 50,000 size class.

TABLE VI-8

PERCENTAGE OF CITIES IN EACH POPULATION SIZE CLASS REPORTING INCREASED CITY EMPLOYMENT

Population Size	1985 to 1986	1986 to 1987
Total	**54%**	**47%**
over 300,000	72	54
100,000 to 300,000	67	52
50,000 to 99,999	69	55
10,000 to 49,999	46	48
less than 10,000	44	35

The preceeding figures illustrate the continuing conservative trend in municipal hiring continues after a small upsurge in the 1985 to 1986 period.

The one quarter reduction in federal funding to cities, caused by the termination of revenue sharing, as well as the pressures added by personnel mandates imposed by the federal and state governments, will exert pressure to restrain any potential growth in the municipal work force.

CHAPTER VII

TAX REFORM

The federal income tax reform act enacted in 1986 was one of the most sweeping revisions of U.S. tax law in history. Though many may assume that state and local governments are tax exempt organizations and, therefore, unconcerned with tax reform; in fact, they are very directly impacted by this law. The individuals who completed the survey form were asked to indicate how important it would be to modify seven changes made by this law.

The city officials completing this survey were financial or budget officials of the cities responding. their view is not an officially, adopted city position, but it does represent the view of a group of city officials who deal directly with municipal borrowing and financial programs.

The respondents were asked "the importance of making each of the following changes, if you were able to amend the law" by ranking each group on a scale from one to ten, with ten being "very important to change". The respondents were asked to make these choices for seven changes: restoring the deductibility of state and local sales taxes and six questions related to municipal bonds.

I. Deductibility of State and Local Sales Taxes

Since the enactment of the federal income tax, it has been possible to deduct most state and local tax payments from income when computing federal income tax liability. In 1985, the IRS reported that thirty-two percent of all itemized deductions were taken based on state and local tax payments.

The percentage of returns showing a deduction for state and local tax payments varies from state to state. According to 1982 IRS data, over forty percent of the returns filed in Colorado, Delaware, Maryland, Michigan, Minnesota, New York, and Utah had itemized deductions for state and local tax payments. On the other hand, less than twenty percent of the returns filed in Maine, South Dakota, and West Viriginia utilized this deduction.

On 1981 income tax returns, state and local tax payments were thirty-one percent of all itemized tax deductions taken. Income taxes were forty-nine percent of the total, property taxes were thirty-two percent, and general sales taxes thirteen percent. (The remainder were motor vehicle, personal property, and miscellaneous taxes.)

The 1986 federal tax reform law eliminated the ability to deduct state and local sales taxes while preserving the continued ability to deduct property and income taxes.

The dependence on the sales tax shows a wide geographic disparity. As part of the state and local "big three taxes" (property, general sales and individual income taxes), general sales taxes represented thirty-one percent in 1982-83. The highest degree of dependence was in Louisiana and New Mexico at seventy-six percent. At the same time no governments in Delaware, Montana, New Hampshire, or Oregon used the tax at all.

Looking at the same figures on the local level only, the average dependence was thirteen percent. Louisiana local governments led the way at seventy-nine percent, while local governments in twenty-four states made no use of the general sales tax.

Examining only the share of city tax revenue from sales taxes and using 1984-85 data, the differences continue to be dramatic. Seventy-eight percent of city tax revenue in Oklahoma came from the sales tax followed closely by cities in Colorado (sixty-one percent), Arizona (fifty-five percent), New Mexico (fifty-four percent), and Louisiana (fifty-three percent). Cities in twenty-eight states did not levy a sales tax.

The pattern also varies for individual cities. Using 1983-84 Census data for cities over 100,000 in population, the following ranges are observed. One quarter of these cities made no use of the general sales tax, but in some cities the sales tax contributed three quarters of local tax revenue: Tucson, Arizona (seventy-two percent), Colorado Springs, Colorado (seventy-six percent), Lakewood, Colorado (seventy-three percent), and Tulsa, Oklahoma (seventy-eight percent).

Even in a single state there is variation. Using the same data, of the twenty-eight California cities in this size class (over 100,000), the degree of dependence varies from thirteen percent in the city/county of San Francisco to fifty-two percent in the city of Bakersfield.

NLC's current policy supports the deductibility of local taxes, specifically.

> **The provisions of the federal income tax code that allow taxpayers to deduct their state and local tax obligations from their federal taxable income is a fundamental statement of the historical right of state and local governments to raise revenues and of individuals not to be double taxed.**
>
> **It enhances the ability of state and local governments to raise revenues, promotes equity in the federal taxing system, discourages the migration of businesses and individuals for tax purposes, increases national productivity by avoiding**

> **excessive cumulative federal/state/local income tax rates, and enhances the autonomy of state and local governments.**
>
> **For these reasons, the National League of Cities opposes the elimination or reduction in value of the deductibility provisions of the Federal income tax code.**

When asked on the survey the importance of restoring the ability to deduct state and local sales taxes, forty-three percent of the respondents said it was "very important" (ranked it eight, nine or ten on a ten-point scale). The average score of this item was 6.3, indicating this provision of the tax law was moderately important to change.

As can be expected from the geographical variation in the use of the sales tax and also in the itemization of sales tax deductions, the response is not uniform across types of cities or regions.

On a regional basis the average scores were as follows:

	Average Score	Number Responding
Midwest	6.6	170
South	6.5	177
West	6.0	129
Northeast	5.3	29

The scores are reasonably close except in the Northeast, this can perhaps be explained by the low number of respondents from this region and the even lower scores from the respondents from the New England states who represent half of those responding from the Northeast.

On a Census division basis, the average score ranged from a high of 7.3 to a low of 4.9. The West South Central division (Texas, Oklahoma, Arkansas and Louisiana) gave this change the highest priority with an average score of 7.3. These four states all have state and local tax systems which are above the national average in their dependence on sales taxes. In 1982-83, the average dependence nationally was thirty-one percent. In Louisiana the comparable figure was seventy-six percent, in Texas fifty percent, in Oklahoma forty-one percent and in Arkansas thirty-eight percent.

At the low end were the New England states giving the restoration of sales tax deductibility an average score of 4.9. All of these states, except Connecticut, have sales tax dependencies well below the national average and New Hampshire has no general sales tax at the state or local level.

The remaining divisions of the country cluster between scores of 5.7 to 6.8.

On a population size basis there is no uniform relation to size. The highest average score is from cities of 10,000 to 50,000 (6.5) and the lowest (6.0) from the smallest communities, those under 10,000.

Metropolitan status appears to make no difference with the scores of central cities, suburbs, and rural municipalities tightly bunched with scores from 6.3 to 6.4.

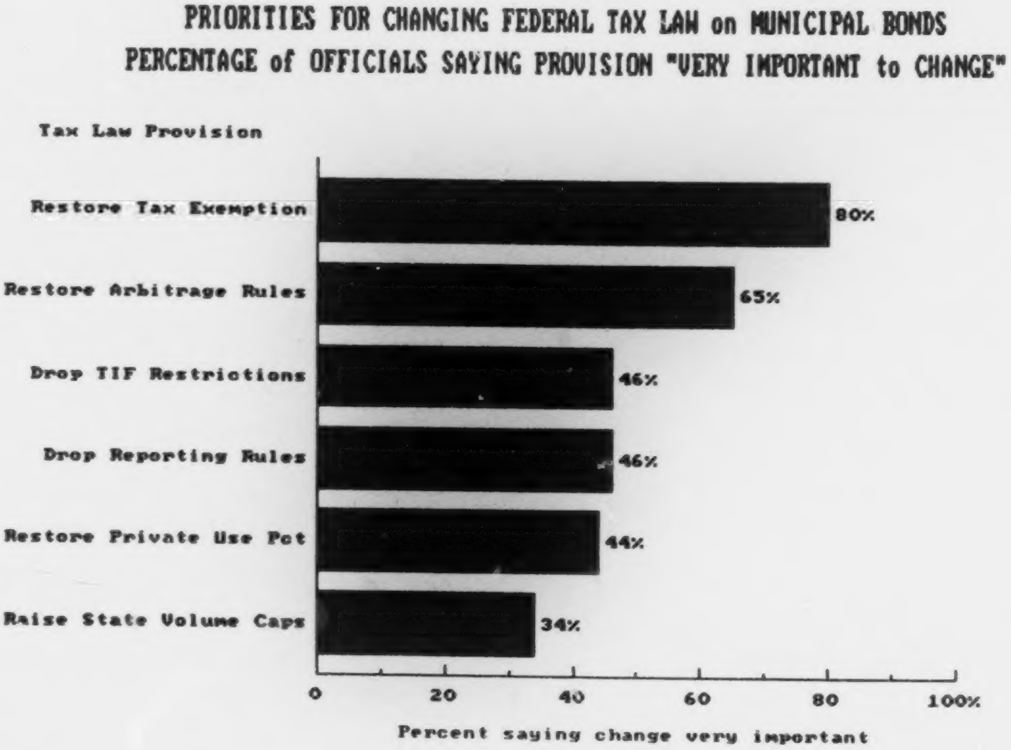
During the tax reform debate, it was hypothesized that the greatest pressures on this tax would be felt in border areas where there are (1) significant variations in sales rates tax, (2) where localities have the discretion to set their own sales tax rates, and (3) where sales tax rates are relatively high.

The jury is still out on this question, and it will take some time before the true impact of this change can be ascertained. Things to watch for would be shifts away from the sales tax, greater uniformity in rates within a trading area, and higher levels of attempted sales tax evasion.

II. Municipal Bond Provisions

The new tax law made a series of very significant changes to the law, regarding tax exempt bonds. The respondents were asked to comment on six of the changes.

FIGURE VII-1



The survey results on each of these items are first summarized, and each bond law provision will then be described more fully with the survey results on each item more completely analyzed.

- The first objective for change in the municipal bond provisions by the respondents was to "again make interest on municipal bonds completely tax exempt by removing municipal bond interest from any computation of tax liability."

  Eighty percent of the respondents ranked this provision of the tax law as "very important" to change (ranked it eight, nine or ten on a ten-point scale). the average score on this item was 8.7 on a ten-point scale.

- "Restoration of the arbitrage limitations of the old law" was top ranked by sixty-five percent of the respondents, and the average score on this item was 7.8 on the ten-point scale.

- "Deleting the requirement to report all municipal borrowing to the Federal government" and "removing new restrictions on tax increment finance bonds" finished in a tie with forty-six percent of the respondents saying these changes were very important. Both items also received average scores of 6.7.

- "Restoring the percentage of private use permitted from the proceeds of a municipal bond from ten percent to twenty-five percent" was ranked very important to change by forty-four percent of the respondents and received an average score of 6.6.

- "Raising the state volume caps for private purpose bonds" was rated very important to change by thirty-four percent of the respondents and received an average score of 6.0.

A. Making Municipal Bonds Interest Tax Exempt

Since the original federal tax law was passed, the interest paid on the indebtedness of municipal government has been exempt from federal government taxation. This provision is defended for its role in lowering the interest rate paid by municipal governments and avoiding the undue interference of the federal government in the local financing process.

Investors in the past could count on a municipal bond being tax exempt once it was issued regardless of the specific details of the borrowing.

The new tax law has deserted this simple predictable approach by creating a caste system for municipal securities, as well as the possibility that a tax exempt bond may become retroactively taxable and can be tax exempt for one investor but not for another.

The following two charts summarize the different types of municipal bond issues and their tax exempt status, as well as events which can result in retroactive taxability.

TABLE VII-1

THE CASTE SYSTEM OF MUNICIPAL BONDS AFTER THE 1986 TAX REFORM LAW

Type of Bond	Always Tax Exempt	Taxable If Issued Outside Volume Cap	Potentially Subject to Personal Alt. Minimum Tax	Potentially Subject to Corporate Minimum Tax
Municipal Bonds issued prior to August 7, 1986	X			X
Municipal Bonds for governmental purposes issued on or after August 7, 1986				X
Private Activity Bonds issued after August 7, 1986		X	X	X
Private Activity portion of governmental bond which exceeds $15 million and was issued after August 7, 1987		X	X	X

TABLE VII-2

ACTIONS WHICH MAY RESULT IN RETROACTIVE PENALTY ON A MUNICIPAL BOND

Action	Potential Penalty	Opportunity to Cure Problem Before Penalty
Report all debt issuances to U.S. Treasury	Bond would be considered taxable from date of issuance	Not Specified
Sale of bond without volume cap allocation	Bond would be considered taxable from date of issuance	Not Specified
Failure to report and rebate arbitrage earnings	Make bond taxable back to date of issuance	If failure due to reasonable cause and not willful neglect-penalty of fifty percent of amount due plus interest
If small issuer sold bonds under arbitrage exemption and then issues additional debt pushing issuer over $5 million annual limit	Make bond potentially taxable if required rebates not made on all borrowing during the year	Same as above provision
If small issuer sells bonds under the $10 million exemption and then does borrowing placing it over the limit	Banks would lose ability to deduct interest costs of carrying such bonds	Not Specified

These two developments: the caste system of bonds and the possibility of retroactive taxability cast uncertainty on the municipal bond market and, thus, put upward pressure on interest rates. Investors don't like to put money into uncertainty, particularly if they don't receive a premium rate of return for assuming this higher level of risk.

How do the city financial and budget officers see this issue? The desire to reintroduce some certainty in the tax exemption of municipal bond interest was the highest rated issue by the responding officials.

Eighty percent of the officials ranked this as "very important to change" (scored the item eight, nine, or ten on the ten-point scale); the average score on this item was 8.7, which also puts it firmly in the "important to change" area of the scale.

There is essentially no spread in the pattern of responses. Regionally, the average scores range from 8.6 in the West to 8.9 in the Northeast. When the geographic view is taken of the smaller divisions, the range is a little greater, but still quite tight with the Mountain region respondents ranking it 8.5 (the lowest score) and those in the Mid-atlantic 9.0.

On a population basis, the smallest cities rank this item 8.5, the lowest, and the cities between 100,000-300,000 rank it the highest at 9.2.

On a city-type basis, suburban cities rank it lowest at 8.6, and central cities rank it highest at 8.9.

In summary, there is a high degree of agreement on this item across the group of surveyed officials, and this item is their highest priority for change.

The specialization of the municipal bond market, forced by the law, changes with attendant higher marketing costs; and the large potential for lawsuits, when a bond becomes retroactively taxable, are obviously developments that these city finance officials do not relish.

Arbitrage

Arbitrage is the term that applies to the gain on a transaction which is due to the price differential existing between two markets.

In the field of municipal finance, it refers to the selling of tax exempt securities (bonds, notes, etc.) with a lower interest rate (due to their tax exempt interest) and then investing the proceeds in securities whose higher interest rates are set by a taxable market. In other words, without any regulation a city could borrow in the tax exempt market, but invest the funds in a taxable market, thus receiving the higher interest rate paid on the taxable instruments without any tax liability.

For example, in 1980 the average yield on a ten-year U.S. Treasury Security was 11.46 percent, while a high grade municipal bond was going for 8.51 percent. If a municipality borrowed $1 million, it would pay an annual interest cost of $85,100, but it could immediately turn around and invest the money and receive an annual amount of $114,600. Thus, it could pay its interest expense from its interest earnings and take out "arbitrage" or profit of $29,500. This arbitrage could be used to reduce the required size of the borrowing or to increase the size of the project financed.

Even under the old tax law things weren't quite that simple, since 1969 there had been some federal restrictions on the amount of arbitrage which could be earned.

Basically, under the former law for long-term bonds, the type issued for municipal construction projects, a city had three years to earn unlimited arbitrage profits. A second provision of the old law was that arbitrage limits were based on good faith expectations when the borrowing was done. The issuer issued an anti-arbitrage certificate saying that it was aware of arbitrage rules and did not contemplate arbitrage earnings.

The new tax law significantly tightened the provisions concerning arbitrage. Under the new law, a municipality is responsible for continuously computing the interest earned on bond proceeds and reserve funds. Basically, a city must keep track of yields to document that the yield earned on investments made with bond proceeds and debt service funds does not exceed the amount which would be earned if these amounts were invested at the yield rate of the tax exempt security which was issued. Cities are not permitted to earn a higher rate than they pay to borrow. Once every five years any earnings in excess of this rate must be paid, "rebated", to the Federal Treasury.

Governments that issue less than five million dollars of debt per year are exempted from many of the arbitrage regulations.

While the Treasury Department has not yet issued regulations on this subject, special computer software programs are being developed, and private firms are being formed to carry out the calculations which will be required by this provision of the law. The potential price is high for failing to properly calculate and timely rebate any arbitrage -- the bonds may be made retroactively taxable back to the original date of issuance.

The respondents are clearly concerned about this provision of the law; sixty-five percent rank these provisions as "very important to change". The average score given this item is 7.8 (on a ten-point scale) which indicates a strong desire for change.

The scores on this item are fairly uniform on a regional basis. Two interesting patterns emerge when the average scores are examined by city size and city type.

When looked at on a city size basis, there is a smooth progression in the average score as city size increases.

TABLE VII-3

AVERAGE SCORE SUPPORTING CHANGE IN ARBITRAGE RESTRICTIONS ON MUNICIPAL DEBT

Population Size Class	Average Score
300,000 and over	8.8
100,000 to 299,999	8.6
50,000 to 99,999	8.5
10,000 to 49,999	7.5
Less than 10,000	6.8

This may reflect the small issuer exemption built into the law and the greater compliance complexity for the larger jurisdictions with multiple bond issues outstanding.

The same smooth progression is observed when the scores are examined by type of city. Central cities are most anxious for change with an average score of 8.5, suburban cities rank this item 7.8, and non-metro communities, place this item at a score of 7.2.

Reporting Requirements

The new tax law creates the new requirement that all tax exempt debt issuance be reported to the federal treasury. Previously, only private activity bonds were required to be reported.

Regulations and reporting forms to implement these reporting requirements have been developed by the U.S. Treasury.

Three types of reports are required to be filed on municipal borrowing depending on its character and size.

I. For Municipal Bonds Classed as Governmental

A. For each bond issue over $100,000, a report must be filed with the U.S. Treasury. The report is required forty-five days after the close of the calendar quarter in which the borrowing occurs (the 15th day of the second month following the close of the calendar quarter in which the borrowing occurs). Treasury form 8038 G is the form on which the filing must be made.

B. For each bond issue of less than $100,000 annual filings by February 15 must be made. These reports would detail all such issues sold during the previous calendar year. Treasury form GC is the form on which these filings must be made.

II. For Municipal Bond Classified as Private Activity Bonds

For each bond issue of so called private activity bonds, a report to the U.S. Treasury shall be filed within forty-five days after the close of the calendar quarter in which the issuance occurred. Treasury form 8038 must be used for this report.

A copy of the 8038 G form is included in the Appendix of this report.

In addition to these reporting requirements on municipal governments, for the first time, beginning with tax returns filed for 1987, all individuals will be required to report the amount of tax exempt interest which they have received. It can be predicted that this information will frequently be used in future tax revision debates.

Forty-six percent of the responding officials that these reporting requirements are "very important" to change. The average score given this item is 6.7.

There appears to be little pattern, geographic or city size variation, in average scores. Officials in the East South Central states of Kentucky, Tennessee, Mississippi, and Alabama appear the most anxious to have this reporting requirement dropped and give it an average score of 7.6. On a size basis, the largest communities (those 300,000 and over) give this item the lowest score of 5.9.

On the basis of city type, all the scores hover right around the overall average score of 6.7.

Restoration of Private Use Test

The former tax law basically defined a bond as tax exempt, if not more than twenty-five percent of the proceeds were to be used in the trade or business of a private party.

The new tax law changes this basic test, subject to a number of exceptions and further conditions, from a twenty-five percent to a ten percent standard.

For example, if a town commits ten percent or more of the space at a bond financed community center building to a day care center, whether for profit or nonprofit, the bonds could be classified as private activity bonds and, thus, lose their tax exemption.

Likewise, if a city, anxious to encourage revitalized retail activity downtown, makes a long term agreement to reserve ten percent of the spaces in a bond financed parking structure for employees or customers of a business or set of businesses, the bonds could be classified as private activity bonds.

Clearly, these new provisions will alter the movement toward public private partnerships.

Forty-four percent of the respondents report that restoring the former standard of twenty-five percent is "very important". The average score on this item is 6.7.

There is only limited variation in the responses to this item on a geographic basis. The cities over 100,000 population seem most desirous to have the old rules restored, their scores average 7.4, while cities under 100,000 give this item average scores of 6.5.

On a city type basis, central cities rank the item 7.3, suburban communities 6.5, and non-metro cities 6.3.

Tax Increment Finance Bonds

Tax increment financing, also called redevelopment financing or tax allocation financing, is a financing tool which is authorized by state statute in at least thirty-three states. ("What is TIF?", Sam Casella, Planning Advisory Service, Rpt No. 389, American Planning Association). It is typically used to finance the physical rehabilitation of an area.

The basic process works as follows:

1. A geographic area is legally defined and boundaries are developed. Often there must be a finding of "blight" in the area. This area is the redevelopment district.

2. The assessed value of the property within the redevelopment district at the time of initial designation is determined. This assessed value is the "frozen" or "base" value.

3. A redevelopment program is adopted usually involving land assembly, building demolition, land resale and intensive new development accompanied by the installation of public infrastructure and amenities.

4. Bonds are issued to finance the publicly assumed costs of the redevelopment. The security for the bonds is the increased tax revenue which will be generated by the tax rate levied against the increased assessed value produced by the project. This is the "incremental tax revenue". While the tax revenues derived from the frozen base go to all taxing jurisdictions, the tax produced by the incremental value is generally reserved solely for the repayment of the bonds issued to finance the improvements.

5. Once the bonds are repaid, the incremental value is released to the general tax rolls where it will result in added general revenue or reduced tax rates.

The new tax law places a number of restrictions on this type of financing. Chief among these restrictions are the following:

- The definition of these bonds as "private purpose" instruments as opposed to public or government purpose bonds.

- Forcing the amount of these bonds to be counted against the state quota or "volume cap" established by the law.

- Imposing a series of limitations on such projects based upon the amount of geographic area and assessed valuation which may be incorporated within a redevelopment area.

- Defining permissible uses for the bond proceeds limiting the percentage of bond proceeds which may assist certain types of business, and completely forbidding assistance to others.

Forty-six percent of the respondents say that this requirement is very important to change (eight, nine or ten on the point scale). The average score on this item is 6.8.

On a geographic basis the lowest average score (3.7) on this item is given by respondents from the **mid-atlantic** states in which this financing mechanism is not authorized by state law.

On the other hand, the highest average score is 7.6 in the **Pacific Coast States,** where there is wide use of this financing technique. For example, in California seventy-two percent of the respondents say that these restrictions are very important to change, and the average ranking of this item by these California respondents is 8.1, 19 percent higher than the overall group ranking.

Raise Volume Caps

The new tax law establishes a smaller and more comprehensive quota system for private purpose bonds. Under this system, each state government is responsible for setting up a method of allocating the limited amount of private activity bond issuing authority which is assigned to each state.

The quotas commonly termed "volume caps" are equal to seventy-five dollars per state resident or two hundred and fifty million dollars for each state, whichever figure is greater. This limitation is in effect for 1987. From 1988 onward the cap is lowered to fifty dollars per resident or one hundred and fifty million dollars, whichever is greater.

Bonds, which must receive a volume cap allocation in order to be tax exempt, are most private activity bonds, including exempt facility bonds, qualified mortgage bonds, small issue industrial development bonds, qualified student loan bonds, and qualified redevelopment bonds. If there is private use of a governmental bond which exceeds fifteen million dollars, then this excess must also receive a volume allocation.

One-third of the responding officials (thirty-four percent) said it was "very important to raise the volume caps. The average score given this item is 6.0.

The cities over 100,000 population give this item a score of 6.6 while those under 100,000 score this item as 5.9.

APPENDICES

CITIES THAT RESPONDED TO 1987 FISCAL CONDITIONS SURVEY

ALABAMA

Birmingham
Dothan
Fairfield
Fayette
Foley
Jasper
Midfield
Montgomery
Moulton
Tuscaloosa
Uniontown

ALASKA

Anchorage
Valdez

ARIZONA

El Mirage
Flagstaff
Glendale
Mesa
Paradise Valley
Peoria
Phoenix
Scottsdale
Show Low
Sierra Vista
Springerville
Tempe
Yuma

ARKANSAS

Fort Smith
Little Rock
Mulberry
Pine Bluff

CALIFORNIA

Anaheim
Arcadia
Arcata
Bakersfield
Bellflower
Beverly Hills
Burbank
Cathedral City
Chula Vista
Claremont
Concord
Cupertino
Downey
Fairfield
Fontana
Fresno
Garden Grove
Hayward
Indio
Irvine
La Mesa
Lakewood
Lodi
Lomita
Los Alamitos
Los Angeles
Martinez
Menlo Park
Montclair
Mountain View
Newport Beach
Palm Desert
Palmdale
Palo Alto
Pomona
Port Hueneme
Redondo Beach
Redwood City
Richmond
Sacramento
Salinas
San Buenaventura
San Diego
San Francisco
San Gabriel
San Jose
San Mateo
San Pablo
Santa Ana
Santa Barbara
Santa Fe Springs
Santa Paula
Signal Hill
Sunnyvale
Vallejo
Visalia
West Convina

COLORADO

Arvada
Brighton
Colorado Springs
Delta
Denver
Englewood
Estes Park
Fort Collins
Glendale
Grand Junction
Greeley
La Junta
Lakewood
Northglenn
Westminster
Wheat Ridge

CONNECTICUT

Bristol
East Hartford
Hamden
Manchester
Norwalk
Torrington
Waterbury
West Hartford

DISTRICT OF COLUMBIA

Washington, D.C.

DELAWARE

Dover
Newark
Smyrna
Wilmington

FLORIDA

Atlantic Beach
Boca Raton
Bradenton
Clearwater
Coral Gables
Davie
Daytona Beach
Delray Beach
Dunedin
Fort Lauderdale
Hollywood
Homestead
Jacksonville
Jacksonville Beach
Largo
Melbourne
Naples

FLORIDA

Okeechobee
Oldsmar
Orlando
Ormond Beach
Palm Bay
Palm Beach
Pembroke Pines
Pensacola
Sanibel
Sarasota
St. Petersburg
Sweetwater
Tampa
Winter Springs

GEORGIA

Atlanta
Augusta
Byron
Catersville
College Park
Decatur
Hapeville
Marietta
Moultrie
Savannah
Summerville
Thomson
Waycross

HAWAII

Honolulu

IDAHO

Boise City
Pocatello

ILLINOIS

Arlington Heights
Bellwood
Bolingbrook
Buffalo Grove
Carbondale
Chicago
Countryside
Decatur
Des Plaines
Downers Grove
Evanston
Evergreen Park
Farmer City
Glencoe
Hazel Crest
Lake Forest
Mount Prospect
Oak Park
Paris
Peoria
Rock Island
Springfield
Streamwood
Westmont
Winnetka
Normal
Norridge

INDIANA

Beech Grove
Elkhart
Evansville
Fort Wayne
Huntington
Indianapolis
Kendallville
Kokomo
Nappanee
South Bend

IOWA

Burlington
Cedar Falls
Cedar Rapids
Davenport
Des Moines
Dubuque
Indianola
Iowa City
Keokuk
Le Mars
Orange City
Ottumwa
Sioux Center
Sioux City
Urbandale

KANSAS

Beloit
Dodge City
Hillsboro
Kansas City
Liberal
Merriam
Olathe
Ottawa
Overland Park
Pittsburg
Prairie Village
Topeka
Wichita

KENTUCKY

Burkesville
Covington
Florence
Franklin
Lebanon
Murray
Newport
Owensboro
Williamstown

LOUISIANA

Abbeville
Estherwood
Franklin
Houma
Kenner
Lafayette
Mandeville
New Orleans
Port Allen
Shreveport
Thibodaux
White Castle

MAINE

Portland

MARYLAND

Baltimore City
Brunswick
Cheverly
Greenbelt
Ocean city
Rockville

MASSACHUSETTS

Arlington
Boston
Cambridge

MASSACHUSETTS

Springfield

MICHIGAN

Adrian
Berkley
Detroit
Farmington Hills
Gladwin
Grand Rapids
Grosse Pointe Woods
Highland Park
Hudson
Huntington Woods
Inkster
Kalamazoo
Lincoln Park
Madison Heights
Muskegon Heights
Norton Shores
Pontiac
Romulus
Roseville
Royal Oak
St. Clair Shores
Sterling Heights
Wayne
Wyoming

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Brooklyn Park
Champlin
Columbia Heights
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Duluth
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Minneapolis
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Red Wing
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Roseville
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Laurel
Meridian
Morton
Natchez

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Bridgeton
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Hazelwood
Kansas City
Kirksville
Lees Summit
Maplewood
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Olivette
Richmond Heights
Springfield
St. Louis
St. Peters
University City
Warrensburg

MONTANA

Bozeman
Butte-Silver Bow
Cutbank
Great Falls
Missoula

NEBRASKA

Beatrice
Bellevue
Imperial
Kearney
Lincoln
Norfolk
North Platte
Scottsbluff
West Point
York

NEVADA

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Henderson
Las Vegas

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Raleigh
Reidsville
Rockingham
Valdese
Whiteville
Winston-Salem

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Grafton
Grand Forks
Harvey

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Bedford
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Cleveland
Cleveland Heights
Columbus
Dublin
Euclid
Garfield Heights
Grove City
Kettering
Lakewood
Lyndhurst
Maple Heights
Newark
Oberlin
Parma
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- Buffalo City
- Green Bay
- Greenfield
- Madison
- Milwaukee
- Watertown
- Wauwatosa
- West Allis

WYOMING

- Cody
- Douglas
- Evanston
- Gillette
- Green River
- Riverton
- Sheridan

Treasury issues new forms for tax-exempt filing

by Frank Shafroth

The U.S. Treasury last week issued new forms to implement the new tax law's requirement that municipalities file reports with the IRS for all tax-exempt borrowing (See The Weekly, Jan. 26).

The form municipalities must file Form 8038-G, for traditional public purpose borrowing in excess of $100,000 is printed to the right with the instructions printed below. This form may be cut out and/or xeroxed by municipalities and used to comply with the new federal filing requirements.

This will mandate a significant new reporting burden on municipalities since it will apparently cover every municipal transaction involving borrowing, including bank loans, leases, overnight loans, in addition to traditional general obligation and revenue bonds. Failure to file the appropriate information report would make any tax exempt financing taxable.

The new regulations will require cities and towns to file one of three kinds of new forms or information returns for any bonds issued after December 31, 1986. The Treasury has requested municipal issuers to file information reports only on the new forms.

The 1984 tax law required reports to be filed for industrial development bonds, the new law extends the reporting requirement to all tax exempt borrowing.

The new forms which cities and towns will be mandated to file are:

§ Form 8038 is the information return for so-called private activity bonds. This form, as revised, must be filed by April 15 for private activity bonds issued in the 1st calendar quarter of 1987, and on the 15 day of the second month after the close of each succeeding quarter.

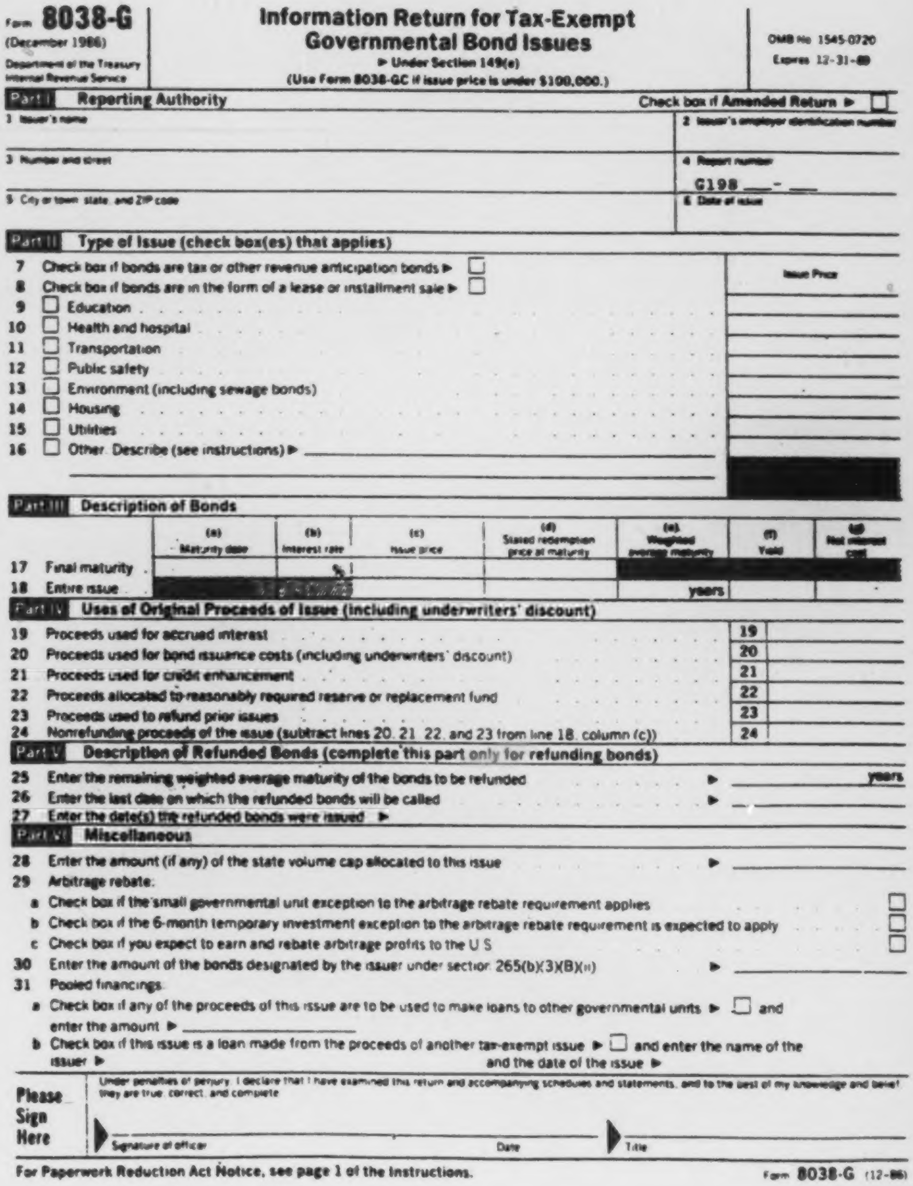
Cities and towns should use the old information return for private activity bonds issued in the 4th calendar quarter of 1986. The deadline is February 15, 1987, but the new form for any private activity bonds issued after Janauray 1, 1987.

To obtain the new 8038, municipal officials may obtain order forms from their local IRS office. The forms themselves are available at 3 IRS distribution centers. NLC will attempt to make the new forms available directly for direct member cities.

§ Form 8038-G (the one shown) is the information return for governmental bond issues. The first return must be filed by April 15, 1987 for governmental bonds issued in the first calendar quarter of 1987, and then on the 15th day of the second month after the close of each succeeding quarter (same future schedule as for the 8038's).

§ Form 8038-GC will be the consolidated information return for small tax exempt governmental issues. It is not available yet, but municipalities are not required to file this form until February 15, 1988, and annually thereafter. The form applies to tax exempt borrowings of less than $100,000. ☐

This form may be cut out or xeroxed and used to comply with new federal filing



Form **8038-G**
(December 1986)
Department of the Treasury
Internal Revenue Service

Information Return for Tax-Exempt Governmental Bond Issues
▶ Under Section 149(e)
(Use Form 8038-GC if issue price is under $100,000.)

OMB No 1545-0720
Expires 12-31-89

Part I Reporting Authority Check box if Amended Return ▶ ☐

1 Issuer's name
2 Issuer's employer identification number
3 Number and street
4 Report number G198 ___ - ___
5 City or town state and ZIP code
6 Date of issue

Part II Type of Issue (check box(es) that applies)

		Issue Price
7	Check box if bonds are tax or other revenue anticipation bonds ▶ ☐	
8	Check box if bonds are in the form of a lease or installment sale ▶ ☐	
9	☐ Education	
10	☐ Health and hospital	
11	☐ Transportation	
12	☐ Public safety	
13	☐ Environment (including sewage bonds)	
14	☐ Housing	
15	☐ Utilities	
16	☐ Other. Describe (see instructions) ▶	

Part III Description of Bonds

	(a) Maturity date	(b) Interest rate	(c) Issue price	(d) Stated redemption price at maturity	(e) Weighted average maturity	(f) Yield	(g) Net interest cost
17 Final maturity		%					
18 Entire issue					years		

Part IV Uses of Original Proceeds of Issue (including underwriters' discount)

19	Proceeds used for accrued interest	19	
20	Proceeds used for bond issuance costs (including underwriters' discount)	20	
21	Proceeds used for credit enhancement	21	
22	Proceeds allocated to reasonably required reserve or replacement fund	22	
23	Proceeds used to refund prior issues	23	
24	Nonrefunding proceeds of the issue (subtract lines 20, 21, 22, and 23 from line 18, column (c))	24	

Part V Description of Refunded Bonds (complete this part only for refunding bonds)

25 Enter the remaining weighted average maturity of the bonds to be refunded ▶ _____ years
26 Enter the last date on which the refunded bonds will be called ▶ _____
27 Enter the date(s) the refunded bonds were issued ▶

Part VI Miscellaneous

28 Enter the amount (if any) of the state volume cap allocated to this issue ▶ _____
29 Arbitrage rebate:
a Check box if the small governmental unit exception to the arbitrage rebate requirement applies ☐
b Check box if the 6-month temporary investment exception to the arbitrage rebate requirement is expected to apply ☐
c Check box if you expect to earn and rebate arbitrage profits to the U S ☐
30 Enter the amount of the bonds designated by the issuer under section 265(b)(3)(B)(ii) ▶ _____
31 Pooled financings:
a Check box if any of the proceeds of this issue are to be used to make loans to other governmental units ▶ ☐ and enter the amount ▶ _____
b Check box if this issue is a loan made from the proceeds of another tax-exempt issue ▶ ☐ and enter the name of the issuer ▶ and the date of the issue ▶

Please Sign Here
Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief they are true, correct, and complete
▶ Signature of officer Date ▶ Title

For Paperwork Reduction Act Notice, see page 1 of the Instructions. Form **8038-G** (12-86)

Department of the Treasury
Internal Revenue Service

Instructions for Form 8038-G

(December 1986)

Information Return for Tax-Exempt Governmental Bond Issues ▶ Under Section 149(e)

A separate Form 8038-G must be filed for each issue

(**Note:** *Use Form 8038-GC if issue price is under $100,000.*)

(Section references are to the Internal Revenue Code unless otherwise noted.)

General Instructions

Changes You Should Note

All issuers of tax-exempt bonds must report certain information about bonds issued by them during each preceding calendar quarter. Issuers should use Form 8038-G if the issue price is $100,000 or more. If the issue price is under $100,000, issuers should use **Form 8038-GC**, Consolidated Information Return for Small Tax-Exempt Governmental Bond Issues. For private activity bonds, issuers should use **Form 8038**, Information Return for Tax-Exempt Private Activity Bond Issues, to comply with this requirement.

Paperwork Reduction Act Notice

The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws. You are required to give us this information.

Purpose of Form

Form 8038-G is to be used by issuers of tax-exempt governmental bonds to provide IRS with the information required by section 149(e) and to monitor the requirements of sections 141 through 150.

Who Must File

A Form 8038-G must be filed for each issue of tax-exempt governmental bonds issued after December 31, 1986, if the issue price (line 18, column (c)) of the issue is $100,000 or more. Form 8038-GC is filed annually to report all issues of governmental bonds whose issue prices are less than $100,000.

Definitions

- A **tax-exempt bond** is an obligation issued as part of an issue the interest on which is exempt from tax under the Internal Revenue Code.
- A **tax-exempt governmental bond** is a tax-exempt bond that is not a private activity bond.
- A **private activity bond** is generally a bond issued as part of an issue of which (1) more than 10% of the proceeds are to be used for any private business use; and (2) more than 10% of the payment of the principal or interest is either secured by an interest in property to be used for a private business use (or payments in respect of such property), or is to be derived from payments in respect of property (or borrowed money) used for a private business use. A bond will also be considered a private activity bond if the amount of the proceeds to be used to make or finance loans (other than loans described in section 141(c)(2)) to certain persons exceeds the lesser of 5% of the proceeds, or $5,000,000. These bonds should be reported on Form 8038.

Note: *Bonds described in section 1312(c)(2) of the Tax Reform Act of 1986 to which the transitional rules in section 1312 or 1313 apply are not private activity bonds for purposes of information reporting. They should be reported on Form 8038-G or Form 8038-GC.*

When To File

File Form 8038-G on or before the 15th day of the second calendar month after the close of the calendar quarter in which the issue is issued. Form 8038-G must be completed based on the facts as of the issue date.

Where To File

File Form 8038-G with the Internal Revenue Service Center, Philadelphia, PA 19255.

Specific Instructions

Part I.—Reporting Authority

Amended Return.—If you are filing an amended Form 8038-G, check the amended return box and complete Part I and only those parts of Form 8038-G you are amending by entering the correct information. Use the same report number (line 4) as was used for the original report. Do not amend the estimated amounts previously reported once the actual amounts are determined.

Line 1.—The issuer's name is the name of the entity issuing the bonds, not the name of the entity receiving the benefit of the financing.

Line 2—Issuer's employer identification number (EIN).—If the issuer does not have an employer identification number, enter "none" and attach a completed **Form SS-4**, Application for Employer Identification Number, to Form 8038-G. If, however, the issuer has previously applied for such a number, attach a statement giving the date of the application and the office where it was submitted.

Line 4—Report number.—Number reports consecutively, based on the filing date (not the date of issue). For example, if the issuer previously filed two Forms 8038-G in the 1987 calendar year, the "report number" for the third Form 8038-G would be "G1987-3." If an issuer (e.g., a state) issues bonds through many departments or agencies, the issuer may assign a letter of the alphabet to each department or agency and each may separately number its reports by indicating both the report number and letter (e.g., 5-C, 2-D).

Line 6—Date of issue.—Enter the date of issue. This is generally the date on which the issuer physically exchanges the first bonds that are part of the issue for the underwriter's (or other purchaser's) funds.

Part II.—Type of Issue

Identify the type of bonds issued by checking the appropriate box(es) and enter the corresponding issue price. The issue price does not include interest from the dated date to the date of issue (if payable at regular intervals of one year or less).

Line 16.—Check this line only if lines 9-15 do not apply and enter a description of the issue in the space provided.

Part III.—Description of Bonds

Line 17.—For those bonds issued as part of the issue with the latest maturity date, enter the maturity date, the interest rate (if the interest rate is a variable rate, enter "VR"), the issue price, and the stated redemption price at maturity. If the bonds are reoffered to the public, the issue price should be determined based on the reasonably expected reoffering price. The issue price does not include interest from the dated date to the date of issue (if payable at regular intervals of one year or less). The stated redemption price at maturity is the amount payable (without regard to optional redemptions) at maturity (excluding interest payable at regular intervals of 1 year or less).

Line 18—Columns (c), (d), and (e).—Enter the issue price, stated redemption price at maturity, and weighted average maturity in years (e.g., 8.7 years). The stated redemption price at maturity of the entire issue is the sum of the stated redemption prices at maturity of each bond issued as part of the issue. The weighted average maturity is the sum of the products of the issue price of each maturity and the number of years to maturity (determined separately for each maturity and by taking into account mandatory redemptions), divided by the issue price of the entire issue (from line 18, column (c)).

Line 18—Columns (f) and (g).—Enter the yield only if the yield has been computed. Yield means the yield on the issue for purposes of section 148. If the issue is a variable rate issue, enter "VR" as the yield of the issue. In addition, enter the net interest cost (NIC) in column (g). The NIC for an issue may be determined by dividing the total interest payments for the issue (reduced by any premium or accrued interest and increased by any discount) by the product of the issue price from line 18, column (c) and the weighted average maturity from line 18, column (e). If it is a variable rate issue, enter "VR" as the NIC of the issue.

Part IV.—Uses of Original Proceeds of Issue

Line 19—Proceeds used for accrued interest.—Enter the amount of original proceeds that will be used to pay interest from the dated date of the bonds to the date of issue.

Line 20—Proceeds used for bond issuance costs.—Enter the amount of the original proceeds that will be used to pay bond issuance costs. Include any underwriters' discount (i.e., the difference between the issue price and the net amount received by the issuer).

Line 21—Proceeds used for credit enhancement.—Enter the amount of the original proceeds that will be used to pay fees for credit enhancement that are taken into account in determining the yield on the issue for purposes of section 148 (e.g., bond insurance premiums and certain fees for letters of credit).

Line 22—Proceeds allocated to reasonably required reserve or replacement fund.—Enter the amount of the original proceeds that will be allocated to such a fund.

Line 23—Proceeds used to refund prior issues.—Enter the amount of the original proceeds that will be used to pay principal, interest, or call premium on any other issue of bonds.

Line 24—Nonrefunding proceeds of issue.—Enter here the amount received by the issuer net of any issuance costs and credit enhancement fees, and net of proceeds allocated to a reasonably required reserve or replacement fund and proceeds used for refunding prior issues (including advance refunding). (Subtract lines 20, 21, 22, and 23 from line 18, column (c).)

Part V.—Description of Refunded Bonds

Complete this part only if the bonds are to be used to refund a prior issue of tax-exempt bonds.

Line 25.—Enter the remaining weighted average maturity of the bonds being refunded. Determine the remaining weighted average maturity without regard to the refunding. The weighted average maturity is determined in the same manner as on line 18.

Line 26.—Enter the last date on which any of the bonds being refunded will be called.

Line 27.—Enter the date of issue of the bonds being refunded. If more than a single issue of bonds will be refunded, enter the date of issue of each of the issues.

Part VI.—Miscellaneous

Line 28.—Enter the amount (if any) of the issuer's state volume cap allocated to the issue under section 141(b)(5).

Line 29a.—Check this box if you will not have to rebate arbitrage profits to the United States because the small governmental unit exception to the rebate requirement applies. See section 148(f)(4)(C).

Line 29b.—Check this box if you expect that the 6-month temporary investment exception to the arbitrage rebate requirement will apply. See section 148(f)(4)(B).

Line 29c.—Check this box if you expect to earn and rebate arbitrage profits to the United States pursuant to section 148(f).

Line 30.—If any portion of the issue will qualify for the small issuer exception to section 265 contained in section 265(b)(3)(B)(ii), enter the amount of the bonds that will qualify for the exception.

Line 31a.—Check this box if the proceeds of the issue are to be used to make loans to other governmental units and the interest on those loans will be tax exempt.

Line 31b.—If the issue is a loan made from the proceeds of another tax-exempt bond, enter the name of the issuer and the date of issue of those bonds.

Signature

Form 8038-G must be signed by an authorized representative of the issuer.

About The National League of Cities

The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and more than 1,300 cities directly and, through the membership of the state municipal leagues, more than 16,000 cities indirectly.

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THE STATE OF THE SMALL CITY

A Survey of the Nation's Cities and Towns Under 50,000

One of a series of Research Reports on major empirical studies of conditions and policies in America's municipalities.

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THE STATE OF THE SMALL CITY:
A Survey of the Nation's Cities and Towns Under 50,000

by
Linda McGregor Matlock
Research Assistant
and
Linda R. Woodhouse
Staff Associate

with
Douglas D. Peterson
Senior Policy Analyst
Contributor

August 1987

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of the National League of Cities

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PREFACE

We are pleased to present The State of the Small City: A Survey of the Nation's Cities and Towns Under 50,000 to NLC's membership and to the public. The State of the Small City Survey was conducted in the spring of 1987 by the National League of Cities' Office of Membership Services on behalf of NLC's Small Cities Council, as the first step in the SCC's State of the Small City Project.

The Small Cities Council is a constituency group within the National League of Cities that represents the special needs and concerns of communities under 50,000.

By conducting this survey and publishing this report NLC seeks to contribute to a better understanding of the problems, concerns and challenges facing smaller cities and towns. We have begun to apply what we've learned in order to better assist these cities and towns assess their own futures and build their capacities to provide the programs and services their citizens need and want.

We sent the survey to 1,110 cities and towns under 50,000, including member cities of NLC and to other selected smaller cities and towns identified for us by our state municipal associations. This report is based on the responses we received from 395 cities and towns.

This effort was initially guided by Marc Shapiro, formerly with NLC's Office of Membership Services, and now with NLC's State League Services. The effort was later guided and directed by Linda R. Woodhouse, small cities liaison and staff associate with NLC's Office of Membership Services.

The survey instrument was developed by Linda McGregor Matlock, a graduate student at Virginia Commonwealth University, in consultation with NLC staff and the Small Cities Council and its officers: Mayor Art Ashley, Nitro, West Virginia, chair; Council Member Stephen Cassano, Manchester, Connecticut, first vice chair; and Council Member Carol Day, Gorham, Maine, second vice chair.

Ms. Matlock also analyzed the data. The report was written by Ms. Matlock and Ms. Woodhouse. In addition, data on city budgets and personnel was provided by Douglas D. Peterson, with NLC's Office of Policy Analysis and Development.

We believe our report is a useful contribution for those who are interested in the needs and concerns of the more than 14,500 cities and towns across the nation under 50,000. We invite comments and questions about this study.

Alan Beals
Executive Director

Thomas H. McCloud
Director, Office of Membership Services

William E. Davis III
Director, Office of Policy
Analysis and Development

ACKNOWLEDGEMENTS

I would like to recognize several individuals and express my appreciation for their help and continued support. Without their effort, this report would not have been possible. First, I would like to thank the officials from the 395 cities and towns who took time from an already busy schedule to complete and return the survey. Without their response there would be no report.

Second, to Kathryn Shane McCarty, director of information services with NLC's Office of Membership Services, for assigning me this project, having faith in my ability, and providing guidance and encouragement.

Third, to Linda R. Woodhouse, staff associate with the Office of Membership Services, for her continuing guidance, encouragement, and oversight throughout this project.

Finally, to Mae Davis, with the Office of Membership Services, for her help, patience, and support throughout the early stages of the process.

Linda McGregor Matlock

In addition to those already mentioned, I would like to acknowledge several others who provided valuable assistance during the writing and revising of this report. First, to Douglas D. Peterson, with NLC's Office of Policy Analysis and Development, who not only supplied the information on which Chapter III is based, but was a source of guidance throughout this project.

Second, to William Barnes, NLC's director of research, whose thoughtful suggestions during the revision process made this a better report in the end.

Third, to B.J. Reed, with the University of Nebraska at Omaha and formerly with NLC, who reviewed the final draft of this report under a tight deadline, and made worthwhile suggestions.

And, finally, to Karen Parker, with the Office of Federal Relations, and Deborah Johnson, with the Office of Policy Analysis and Development for their assistance in preparing the final document.

Linda R. Woodhouse

THE STATE OF THE SMALL CITY:

A Survey of the Nation's Cities and Towns under 50,000

By

Linda McGregor Matlock

and

Linda R. Woodhouse

National League of Cities

August 1987

EXECUTIVE SUMMARY

In 1987, 395 cities and towns with populations under 50,000 responded to an NLC survey about the problems and concerns of smaller communities. The survey was conducted by NLC's Office of Membership Services on behalf of the Small Cities Council, which represents the special concerns of smaller communities within NLC.

These are the major themes that emerged from the survey findings:

- There is broad disparity among small cities and towns in their overall economic and fiscal conditions.

- Federal mandates imposed on cities and towns, without accompanying funds to cover the costs, continue to cause serious problems for cities and towns.

- Legal liability issues remain serious problems for small communities.

- While many small cities and towns were hard hit by the loss of General Revenue Sharing, they continue to provide a broad range of basic services to their citizens, but often at reduced levels.

These are some of the specific findings:

Community Conditions and Problems

- Cities and towns said their ability to attract industry and jobs was their top problem for both 1986 and 1987, even though 41 percent of cities and towns that responded said their ability to attract industry and jobs had "improved" over the past year.

- While overall economic conditions improved in 37 percent of the cities and towns responding, they worsened in 30 percent of communities, and stayed the same in 28 percent of communities, suggesting uneven economic conditions in cities across the nation.

- Other top problems facing cities and towns included streets, roads and sidewalks, and overall economic conditions.

- The community condition that has improved the most over the past year is interest rates on city borrowing, cited by 59 percent of respondents.

- When presented with a list of 20 community conditions, 39 percent of the respondents reported that small business closings/farm foreclosures and problems with drugs had "worsened" in the past year.

Services Cities and Towns Offer

- Cities will provide about the same level of most services for the fiscal year ending in 1988 as for the current fiscal year.

- Infrastructure and economic development are the two areas where the most cities will offer more services in 1987 and 1988.

Small Cities and the Loss of General Revenue Sharing

- Fifty-seven percent of cities responding reported that funds from the now-defunct General Revenue Sharing program were the only federal funds directly received by their city or town during the last fiscal year; 69 percent of those communities which said GRS was the only federal money received are under 10,000 population.

- More than half the respondents said they used GRS money solely for capital outlays; 57 percent said GRS represented five percent or less of their general tax support during the current fiscal year.

- The impact of the loss of GRS was uneven. While 21 percent of cities and towns in the South said they'd have to raise property tax rates by more than 10 percent to maintain the same level of services, 17 percent in the West, 10 percent in the Midwest and no responding cities from the Northeast would require such an increase.

- More than half of cities responding reduced services for streets and roads due to the loss of GRS; 37 percent cut back park and recreation programs; 24 percent reduced police services; and 20 percent reduced fire services.

Federal Mandates

- Fifty-four percent of respondents identified clean water as one mandate causing them problems, and 51 percent said mandates concerning employee benefits were causing problems. Many cities listed several mandates that caused them problems.

- Almost half of responding cities are using a variety of methods to cover the cost of federal mandates, including increasing user fees, raising taxes and cutting spending.

Shift in Population and Age

- Seventy-one percent of respondents reported a significant shift (five percent or more) in the composition of their communities' populations since the 1980 Census.

- Almost half of the respondents said changes in the makeup of their populations have had multiple effects, including an increase in the tax base, and increased demands for education, social services, housing, and parks and recreation; 17 percent said changes in population had reduced the tax base and 15 percent said that their tax base had increased because of those changes.

Legal Liability and Liability Insurance Crisis

- Eighty percent of respondents said concerns about legal liability, the cost of liability insurance, and the availability of liability insurance remain critical or serious problems for their communities.

- Ninety-one percent of respondents that buy commercial insurance said legal liability, affordability and availability were serious or critical problems, while 67 percent of cities that participated in pools gave the same response.

- More than 90 percent of awards made by responding cities and towns over the last three years came as a result of out-of-court settlements.

- Nearly one-third of cities and towns responding have had no awards or settlements in the last three years.

Consolidation/Disincorporation

- Despite hardships many small communities are experiencing, an overwhelming 96 percent said they are not facing legal consolidation or disincorporation.

The City Budget and Personnel

This report also includes information for cities under 50,000 collected as part of NLC's annual fiscal conditions survey conducted in March 1987. Among those findings:

- An increasing number of small cities continue to see their current general fund expenditures outpace their current general fund revenues; 60 percent of cities are reducing their beginning balances in order to keep the general fund in the black.

- More than half of cities responding anticipate expenditures for Fiscal Year 1987 will exceed revenues, compared to 30 percent in 1985 and 34 percent in 1986.

- While 28 percent of cities under 10,000 saw a revenue decline in 1986, 53 percent expect lower revenues in 1987.

- More than one-fourth of cities in all regions of the country are cutting back the number of municipal employees.

CHAPTER I

INTRODUCTION

Many smaller cities and towns across the nation are facing difficult problems--many of them caused by changes beyond their control. A blend of forces has made it much more challenging in recent years for smaller communities to offer the programs and services citizens want and need.

Among those forces:

- federal and state laws and policies that restrict the powers of cities and towns to govern;
- cutbacks in federal aid, coupled with limits in many states on the amount and ways cities and towns may raise revenue at the local level;
- problems with the local economy--whether it be the farm credit crisis in the South and Midwest, the oil bust in the Southwest, or the loss of the textile industry to foreign competition in the South and the accompanying loss of Main Street businesses, banks that must close, and residents who reluctantly seek better opportunities elsewhere;
- losses or gains in population that put strains--or restraints--on municipal services and budgets;
- the ever-increasing power of the courts at all levels over matters that affect the way even the smallest communities provide programs and services.

This report provides nationwide statistics on conditions of communities with populations under 50,000. The information in this report is drawn from the State of the Small Cities Survey which was mailed to the mayors of 1,110 cities and towns in early March 1987. All direct members of the National League of Cities with populations under 50,000 cities received the survey.

In an effort to ensure that cities with populations under 5,000 were represented in the survey results, each of NLC's 49 state municipal associations provided the names of two cities to which the survey was also sent. In addition, the survey was mailed to all elected officials serving on NLC's Small Cities Council.

More than three-fourths of NLC's direct member cities have populations under 50,000. Table I-1 shows the population breakdown for NLC direct member cities under 50,000.

TABLE I-1

NLC DIRECT MEMBER CITIES UNDER 50,000

Population Range	Percentage
Under 1,000	1%
1,000 to 4,999	13
5,000 to 9,999	16
10,000 to 19,999	32
20,000 to 39,999	30
40,000 to 50,000	8
	100%

We asked cities and towns to address these areas of concern:

(1) The services that cities and towns provide; how cities assess their ability to provide these services; and how population and demographic changes effect the kind and level of services needed;

(2) The impact of federal mandates and the loss of federal programs--especially the loss of General Revenue Sharing--on small cities and towns;

(3) How cities are coping with the rising costs of liability insurance, and how they are choosing to settle claims filed against them.

TABLE I-2

CITIES SURVEYED BY POPULATION

	Number	Percent
Less than 1,000	18	2
1,000 to 4,999	210	19
5,000 to 9,999	165	15
10,000 to 49,999	717	64
	1,110	100%

In addition, we report in Chapter III some of the findings for cities under 50,000 from the National League of Cities' annual fiscal conditions survey, City Fiscal Conditions in 1987, released in June 1987. The data for that chapter was provided by Douglas D. Peterson, senior policy analyst with NLC's Office of Policy Analysis and Development.

Those findings cover a fourth area of concern:

(4) The overall fiscal health of smaller communities, and the number of people cities and towns employ.

Quotations From City Officials

Each chapter of this report begins with a comment or quote from a city official who filled out the survey, or from subsequent discussions of survey findings by officials from smaller communities. Those comments, which come from the heart, lend a human flavor to the numbers. They remind us that behind these statistics lay the human concerns of people across the nation who live in and help govern the nation's small cities and towns.

CHAPTER II

THE CHANGING FACE OF SMALL CITIES AND TOWNS

"We are experiencing rapid growth and are unable to accurately predict future local revenues."

Wayne Campbell
Executive Assistant to the Mayor
Hoover, Alabama

"The creation, expansion, and retention of jobs would increase the tax base, stimulate the economy, decrease social service functions and retain youth in the community."

Robert E. Millett
Mayor
Rock Island, Illinois

The heart of America is its small cities and town. The U.S. Census Bureau's 1982 Census of Government reports that 62 percent of the country's 237 million people live in cities and towns, and almost half of all Americans living in cities--47 percent--reside in communities of under 50,000.

Cities and towns across the country have diverse characteristics. It is difficult to compare a farm community in Iowa with a resort community in Florida. Cities do, however, share three common characteristics: they all have some form of municipal government, they all serve citizens, and they all provide some level of programs and services.

Even though communities as diverse as Gorham, Maine and Grapevine, Texas responded to our survey, they share a common bond because of these three common characteristics.

Who Responded to the Survey

As Table II-1 shows, about one-third (31 percent) of officials from cities that responded to the survey live in communities with populations under 10,000. Another third live in communities with populations between 10,000 and 19,999. The remainder live in communities with populations between 20,000 and 50,000.

TABLE II-1

POPULATION OF RESPONDING CITIES ACCORDING TO THE 1980 CENSUS

Population	Percent	Number of Cities
Less than 1,000	1%	3
1,000 to 4,999	16	60
5,000 to 9,999	14	56
10,000 to 19,999	30	115
20,000 to 29,999	19	79
30,000 to 39,999	10	41
40,000 to 50,000	10	41
	100%	395

The U.S. Census Bureau divides the United States into four regions. These regions are: West, Midwest, South, and Northeast.

The states in each region are as follows:

West: Alaska, Arizona, California, Idaho, Montana, Nevada, New Mexico, Oregon, Washington, and Wyoming;
Midwest: Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Michigan, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin;
South: Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia;

Northeast: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. Table II-2 shows percentage and number of respondents by Census region.

TABLE II-2

RESPONDENTS BY CENSUS REGION

Region	Percent	Number
Northeast	4%	18
Midwest	34	130
South	42	166
West	20	81
	100%	395

Table II-3 further breaks down those numbers to show the population size of responding cities by region. The largest percentage of cities responding to the survey (30 percent) are from cities with populations of 10,000 to 20,000. The smallest response was from communities under 1,000. The South had the largest percentage of respondents of less than 10,000 (43 percent).

TABLE II-3

POPULATION OF RESPONDENTS BY REGION

	Total	N.E.	Midwest	South	West
Less than 1,000	1%	0%	1%	1%	1%
1,000 to 4,999	16	6	14	22	16
5,000 to 9,999	14	6	9	20	14
10,000 to 19,999	30	31	39	25	30
20,000 to 29,999	19	25	19	16	19
30,000 to 39,999	10	13	9	5	10
40,000 to 50,000	10	19	9	11	10
	100%	100%	100%	100%	100%

Table II-4 shows that 44 percent of cities that responded are located outside of metropolitan areas, compared to 63 percent for all cities in the nation; 42 percent are suburban communities in metropolitan areas, compared to 34 percent of all cities; and 14 percent are central cities in U.S. Census Bureau Metropolitan Statistical Areas, compared to three percent of all cities.

TABLE II-4

TYPE OF CITY

Central city whose name is included in the title of a Metropolitan Statistical Area (MSA)	14%
In a MSA, but not Central City	42
Located outside a MSA	44
	100%

Form of Government

As Table II-5 shows, 55 percent of responding cities have the council-manager form of government, while 42 percent have the mayor-council form of government. Table II-6 shows the form of government of respondents by region.

TABLE II-5

FORM OF GOVERNMENT

Mayor-Council	42.0%
Council-Manager	55.0
Commission	2.0
Town Meeting	.5
Representative Town Meeting	.5
	100%

TABLE II-6

FORM OF GOVERNMENT BY REGION

Form of Government	N.E.	Midwest	South	West	Total
Mayor-Council	38%	54%	37%	32%	42.0%
Council-Manager	38	43	61	68	55.0
Commission	0	3	2	0	2.0
Town Meeting	12	0	0	0	0.5
Representative Town Meeting	12	0	0	0	0.5
	100%	100%	100%	100%	100%

Demographic Changes

We asked municipal leaders whether their cities' populations had changed significantly (by five percent or more) since 1980, and whether their communities had experienced a shift in the age of their populations.

As Table II-7 shows, 46 percent of those who responded said that their city or town had experienced either a population increase, or an increase coupled with a shift in the age of their population. Twenty-one percent said they had experienced a decrease, or a decrease and a shift in the age of their population. Four percent experienced only an age shift, and 29 percent experienced no significant population change.

TABLE II-7

COMMUNITIES CHANGE IN POPULATION, SHIFT IN AGE

Increase & Age Shift	23%
Decrease & Age Shift	14
Increase Only	23
Decrease Only	7
Age Shift Only	4
No Change	29
	100%

When we asked about this age shift, 71 percent of those who responded indicated a significant change in the composition of their communities' population. Table II-8 indicates just how the population has changed.

TABLE II-8

CAUSES OF SHIFT IN AGE OF POPULATION

Shift was due to:	
Increase in Elderly	55%
Increase in Youth	13
Decrease in Elderly	2
Decrease in Youth	8
Increase in Working Age	13
Decrease in Working Age	9
	100%

Over half (55 percent) of the communities responding indicated that the change in population was due to an increase in the proportion of elderly. Only two percent noted a decrease in the proportion of elderly.

What problems and circumstances are small cities and towns having to face with the change in population? Table II-9 indicates six ways that the communities are being affected by a change in population.

Forty-nine percent of those responding to the survey stated that the change in population had not caused a single problem or circumstance, but had multiple effects listed in Table II-9.

Change in Community Conditions

We have noted that the composition of the population in the majority of small communities surveyed has changed, and that the change in many communities is due to an increase in the proportion of elderly.

With this in mind let us turn to other changes in community conditions that have occurred.

TABLE II-9

HOW POPULATION SHIFTS HAVE AFFECTED CITIES

Change in Population Has:	
Reduced the Tax Base	17%
Increased the Tax Base	15
Increased Demands on Education	2
Increased Demands on Social Services	6
Increased Demands on Housing	2
Increased Demands on Parks	3
Other	6
Multiple Effects	49
	100%

The respondents were presented with a list of twenty conditions (Table II-10) and were asked to note whether these conditions had "improved," "worsened," or whether there had been "no change." Respondents were also given the choice of "not sure."

Choosing from those same community conditions, we asked respondents to rank their three most important problems for 1986 and 1987. These were the results.

The three most important problems for 1986:

1. Ability to attract industry/jobs
2. Streets, roads and sidewalks
3. Overall economic conditions

The three most important problems for 1987:

1. Ability to attract industry/jobs
2. Streets, roads and sidewalks
3. Overall economic conditions

Respondents listed the ability to attract industry and jobs as their most important problem in both years. The related concern of overall economic conditions was listed third both years, and concern about local infrastructure (streets, roads and sidewalks) was listed second.

While cities listed their ability to attract industry and jobs as their top problem, when asked to show how community conditions had changed, 41 percent of cities that responded said their ability to attract industry and jobs had "improved" over the past year (Table II-10). That suggests that many cities are experiencing a better climate for economic development.

TABLE II-10

CHANGE IN COMMUNITY CONDITIONS

CONDITION	CHANGE			
	Improved	Worsened	No Change	Not Sure
Ability to Attract Industry/Jobs	41%	17%	39%	3%
Small Business Closings/Farm Foreclosures	7	39	45	9
Available/Affordable Housing	33	17	45	5
Ability to Keep Youth	9	26	50	15
Unemployment	22	33	39	6
Overall Economic Conditions	37	30	28	5
Interest Rates on City Borrowing	59	12	22	7
Fiscal Condition	30	37	31	2
Cost of Living	20	30	44	6
Cost of Energy	26	34	38	2
Streets, Roads, Sidewalks	28	32	38	2
Public Transportation	7	11	66	16
Homelessness	4	18	52	26
Crime	15	29	51	5
Poverty	4	26	48	22
Drugs	8	39	35	18
Health Care	20	11	53	16
Garbage Disposal	14	9	74	3
Water Treatment	24	4	68	4
Sewer Treatment	27	5	64	4

TABLE II-11

MOST IMPORTANT PROBLEMS: 1986 AND 1987

Problem	Percent of Cities Selecting Items as First, Second, or Third Choice 1986	1987
Ability to attract industry/jobs	13%	13%
Small business closings/farm foreclosures	5	5
Available/affordable housing	5	5
Ability to keep youth	2	2
Unemployment	8	8
Overall economic conditions	9	9
Interest rates on city borrowing	-	-
Fiscal conditions	7	7
Cost of living	1	1
Cost of energy	2	2
Streets, roads and sidewalks	10	10
Public transportation	1	2
Homelessness	1	1
Crime	5	5
Poverty	1	1
Drugs	5	5
Health care	-	-
Garbage disposal	2	2
Water treatment	4	3
Sewer treatment	6	5
Other	13	14
	100%	100%

The second most important problem in 1987 was streets, roads and sidewalks, with overall economic conditions ranking third for both years.

When asked to rate the status of community conditions, about one-third of the respondents (37 percent) said overall economic conditions had "improved," 30 percent said they had "worsened," and 28 percent said there was "no change."

Those results, and a similar response when asked to rate the status of fiscal conditions, suggests a disparity among smaller communities in their overall economic well-being.

Another area where responses were split was streets, roads and sidewalks. While 38 percent of respondents said that community conditions did not change in the past year, 32 percent said those conditions had worsened, and 28 percent said they had improved.

For the most part, a majority of cities recorded "no change" in several basic services: garbage disposal, 74 percent; water treatment, 68 percent; public transportation, 66 percent; and sewer treatment, 64 percent.

The condition rated "improved" by the most cities (59 percent) was interest rates on city borrowing, followed by ability to attract industry/jobs, 41 percent, and available/affordable housing, 33 percent.

Small business closings and farm foreclosures have worsened in the largest number of communities (39 percent); 39 percent also said the drug problem had worsened in their communities.

Consolidation and Disincorporation

When asked about legal consolidation to create a new entity, or disincorporation, ninety-six percent of those who responded indicated that their city/town was not currently faced with either situation. In comparison, only two percent said they were facing a forced consolidation, and only one percent were choosing or considering consolidation or disincorporation.

TABLE II-12

LEGAL CONSOLIDATION/DISINCORPORATION

My City/Town is Facing a Forced Consolidation	2%
My City/Town Has Chosen to Consolidate	1
My City/Town is Considering Disincorporation	1
My City/Town is Not Currently Faced with Consolidation Disincorporation	96
	100%

CHAPTER III

THE GENERAL FUND BUDGET AND CITY PERSONNEL

"In these times, you have to operate smarter."

Paul Thornton
Council Member
Vienna, West Virginia

A large percentage of American cities are currently experiencing fiscal stress. NLC's annual Fiscal Conditions Survey found that 53 percent of cities with populations under 10,000 expect to see revenues drop in 1987.

Increasingly, many small cities are also seeing expenditures exceed revenues. The gap is getting bigger between expenditures and the revenues to cover those expenditures. Small cities are balancing their budgets by drawing down their beginning balances. Sixty percent of the cities report reducing these balances in 1987.

At the same time the State of Small City Survey was mailed, the National League of Cities also conducted its annual City Fiscal Conditions Survey. To avoid duplicating questions on both surveys, we sought city general fund and personnel information only on the Fiscal Conditions Survey.

That survey was conducted and reported by Douglas D. Peterson, Senior Policy Analyst with NLC's Office of Policy Analysis and Development, (City Fiscal Conditions In 1987, NLC, June 1987), who provided us with the general fund and personnel data for cities under 50,000, which we discuss in this chapter.

The introductory discussion of the general fund that follows, also came, for the most part, from that report.

The Fiscal Conditions Survey asked cities for a three-year history/projection of their general fund budget.

The general fund was selected as the focus of the survey and the follow-up report for these reasons:

- It is "normally the most important fund of a municipality," according to a recent report from the International City Management Association, and usually finances many basic municipal functions.
- It is frequently a key focus of local budget deliberations since it usually finances such central municipal functions as police, fire, public works, planning and central administration departments.
- It is often the area where state-imposed limitations on taxing and spending are most binding.

The proportion of a city's spending incorporated in the general fund can show substantial variation depending on: 1) the complexity of a city's accounting system and the dictates of federal or state laws; 2) borrowing requirements imposed by lenders; or 3) the functions a city carries out.

In some very small communities, the entire budget may be in the general fund; in larger communities there are typically a number of special funds in addition to the general fund.

Information We Asked Cities To Provide

Cities were asked to provide four figures for the fiscal years ending in 1985, 1986 and 1987:

- Beginning Balance--the resources in the general fund at the beginning of the city's fiscal year.
- Revenues (and transfers in)--the grand total of all taxes, fees, charges, federal and state grants, and other funds deposited in the general fund. "Transfers in" occur when a city brings funds from one of its other specialized funds into the general fund.

- Expenditures (and transfers out)--the grand total of all spending, which might include both operating and capital spending. Transfers to other funds are also included here.

- Ending Balance--the resources left in the general fund at the end of the year. The ending balance results from this equation: Beginning Balance + Revenue-Expenditures = Ending Balance. The ending balance of one year becomes the beginning balance of the next year.

Because the survey was completed in March and April, respondents estimated budget figures for the fiscal year ending in 1987. We anticipate the actual 1987 figures will differ from those reported here. Some of the 1986 figures are also subject to adjustment, particularly for those cities with fiscal years ending in December.

Three hundred thirty-five cities and towns under 50,000, out of 1,110 cities that received it, responded to the Fiscal Conditions Survey, conducted in March and April 1987. Table III-1 shows the population distribution of respondents.

TABLE III-1

SMALL CITIES THAT RESPONDED TO FISCAL CONDITIONS SURVEY

	NE	Midwest	South	West	Total
Less than 10,000	1	29	52	17	99
10,000 to 50,000	9	91	77	59	236
	10	120	129	76	335

TABLE III-2

DISTRIBUTION OF RESPONDING CITIES BY REGION AND METROPOLITAN STATUS

	Central	Suburban	Rural	Total
Northeast	2	4	4	10
Midwest	6	63	50	119
South	12	54	63	129
West	3	38	35	76
Total	23	159	152	334

NOTE: Central city means a designated central city of a metropolitan statistical area; suburban means that the city is located within a metropolitan statistical area but is not a central city; and rural means that the city is located outside a metropolitan area.

Revenue Patterns

One way of examining the fiscal condition of a city is to look at its pattern of revenue increase. The growth in revenue goes a long way in defining the capacity of the city to supply services and to meet the increased cost of providing the services.

Table III-3 shows the patterns of revenue change responding cities and towns reported. While 22 percent of these cities saw revenue declines in 1986, 39 percent expect declines in 1987. Almost three-fourths of respondents experienced revenue increases from Fiscal Year 1985 to FY 1986, while about half saw revenues rise from FY 86 to FY 87.

TABLE III-3

PATTERNS OF REVENUE CHANGE

	FY 85 to FY 86	FY 86 to FY 87
Decline	22%	39%
Constant	4	5
Increase	74	56

When we looked at revenue declines on a regional basis (Table III-4), cities reported declining revenues in three regions: the South, Midwest and the West. We had insufficient response to analyze this trend for cities in the Northeast.

While about 20 percent of respondents reported revenue decreases in all three regions for FY 85 to FY 86, that percentage rose substantially in all three regions for FY 86 to FY 87.

The prospects for 1987 revenue growth are viewed even more pessimistically by the smallest communities (those under 10,000). Twenty-eight percent of these cities saw a revenue decline in 1986, but 53 percent expect this to occur in 1987. Over half of the smallest cities and towns expect to see their revenues fall in 1987. Expectations are less extreme in cities from 10,000 to 50,000, where 33 percent expect revenue declines.

TABLE III-4

REVENUE PATTERNS BY REGION

	Percent of Cities with Revenue Decreases	
	FY 85 to FY 86	FY 86 to FY 87
Total all regions	22%	39%
Northeast	*	*
Midwest	20	35
South	21	44
West	27	42

*Insufficient response rate, however we know from other sources that many cities in the Northeast are experiencing decreasing revenues.

Because the fiscal years of many cities and towns end at different times than the federal fiscal year, many communities reported some General Revenue Sharing money in their 1987 budgets. With no FY 1988 GRS money coming, due to elimination of the program by the federal government, the chances are high that cities will experience further declines in revenue next year.

Spending Patterns

The other side of the general fund equation is the spending required to provide community services. Table III-5 shows that spending patterns have been consistent over the two periods, FY 85 to FY 86 and FY 86 to FY 87.

TABLE III-5

SPENDING PATTERNS

	Percent of Responding Cities	
Expenditure	FY 85 to FY 86	FY 86 to FY 87
Decline	20%	25%
Constant	4	4
Increase	76	71
	100%	100%

Table III-6 shows a regional breakdown of spending patterns for communities that reported declining revenues. Respondents in both the Midwest and the South reported lower levels of spending from one period to the next. Almost a quarter of responding cities in the West had lowered levels of spending in both periods.

TABLE III-6

DECLINING SPENDING BY REGION

	Percent of Cities That Reported Declining Spending	
	FY 85 to FY 86	FY 86 to FY 87
Total	20%	25%
Northeast	*	*
Midwest	16	23
South	21	29
West	24	24

*Insufficient response

Matching Revenues and Expenditures

To this point, we have looked at revenues and spending as though they were independent functions. In fact, they are interdependent.

Most cities are legally required by state law, constitution or local charter to balance their budgets. A balanced budget means total resources (revenues plus balances) cover total spending.

The survey responses suggest that small cities are having to stretch harder to balance their budgets. As Table III-7 shows, 53 percent of respondents anticipate expenditures for 1987 will exceed revenues, compared to 30 percent in 1985 and 34 percent in 1986.

TABLE III-7

REVENUES AND EXPENDITURES COMPARED

	1985	1986	1987
Expenditures exceeding revenues	30	34	53
Expenditures equaling revenues	8	10	26
Revenues exceeding expenditures	62	56	21

Because the political and legal penalties for not balancing the budget are so severe, there is a natural conservative bent in city government budgeting. Cities are often modest in revenue projections and pessimistic in estimating expenditures. This gives city officials leeway to ensure that their budgets will be balanced at the end of the fiscal year.

Since the 1987 budget figures cities gave us are estimated figures, we expect the actual results to be somewhat better than projected. Despite this tendency toward pessimism in budget projections, it is still clear from the data received that there is increased pressure on small city budgets because revenues do not meet expenditures.

In order to look at the magnitude of revenue/expenditure imbalances within city budgets, we have developed an index that allows us to compare various sizes of budgets.

We will call it the "imbalance index." It is computed for each city by subtracting expenditures from revenues and dividing the result by expenditures. Converted into a percentage, this is the "imbalance index."

A city with $1 million in revenue and $1.1 million in expenditures would have an imbalance index of -9. A city with revenues equaling expenditures would have an index of zero. A city with revenues of $1.1 million and expenditures of $1 million would have a positive index of 10.

When we looked at responding cities' imbalance indexes, (Table III-8) we found an increasing number of cities expecting expenditures to exceed revenues by more than five percent. Fourteen percent of responding cities and towns had an imbalance index of -5 or less in 1985, while 29 percent projected that level for 1987.

TABLE III-8

IMBALANCE INDEXES FOR 1985, 1986, 1987*

	1985	1986	1987
Worse than -5	14	16	29
-5 to +5	55	57	62
Better than 5	31	27	9
	100%	100%	100%

*Imbalance index = $\frac{(\text{Revenue - Expenditure})}{\text{Expenditure}} \times 100$

As would be expected, most cities cluster in the middle range. The data however still clearly shows the deteriorating budget trends discussed earlier. In each year, greater percentages of small cities have imbalance indexes exceeding -5.

Bridging the Revenue-Expenditure Gulf

To make up for this revenue-expenditure imbalance, cities are forced to use the balances with which they begin the year. We also developed an index to compare beginning balances.

We derived the index by dividing the 1987 beginning balance by 1987 expenditures and converting the resulting figure to a percentage.

Table III-9 shows the 1987 beginning balances, based on our index. Cities' balances at the beginning of 1987 are positive, as they must be to deal with fluctuating revenue and expenditure flows during the budget year. A 15 percent beginning balance is roughly equivalent to two months expenditures if expenditures flowed evenly throughout the year.

TABLE III-9

1987 BEGINNING BALANCES

(Measured as % of expenditures by region)

Beginning Balance Index	Total	Northeast	Midwest	South	West
Negative	3	-	5	0	4
0	1	-	1	1	0
1 to 15	34	-	28	40	35
Over 15	62	-	66	59	61
	100%	*	100%	100%	100%

*Insufficient response

Significant portions of these balances may be "set aside" or reserved for specific purposes and thus may not be available for general operations. Examples would be funds set aside for the payment of liability claims or funds reserved for specific projects. This segregation of special funds within the general fund is probably much more common in smaller communities, than establishing separate funds.

It is with funds drawn from the unreserved portion of these balances that cities are balancing their budgets.

What is Happening to Balances During 1987

Sixty percent of small cities responding to the fiscal survey said they will be reducing their balances during FY 1987; 18 percent said they will maintain balances, and 22 percent said their city will augment their balance during 1987 (Table III-10). The distribution of small cities on this questions is basically the same as the results for the communities with populations of more than 50,000.

TABLE III-10

TREND IN BALANCES, FISCAL YEAR 1987

Change in Balance	% of Cities
Reducing by more than 50%	18
Reducing from 26% to 50%	15
Reducing from 1% to 25%	27
Maintaining balance	18
Increasing balance by 1% to 20%	15
Increasing balance over 20%	7
	100%

These figures show that many cities will be hard-pressed to maintain services if the 1987 projections hold true. Small cities will face FY 1987 with reduced balances, declining revenues, without revenue sharing, and confronting the challenges of financing under the constraints of the new federal tax law.

City Employment

Cities are by definition service providers and thus labor intensive. According to the U.S. Census Bureau's most recent annual study of municipal employment across the nation, total employment by cities of all sizes generally increased until 1980.

In that year, a three-year decline began. In 1985 total municipal employment was below the level of employment 10 years earlier, in 1975.

During the period 1980 to 1985, total municipal employment by cities under 50,000 decreased by four percent.

If we subtract education and hospital employees--those services are most often provided by larger cities and by counties--we get the distribution of total municipal employment by city size as outlined in Table III-11.

This table shows that small cities and towns employ almost four of every 10 municipal employees, and employ slightly more workers in total than the cities of more than 300,000.

TABLE III-11

TOTAL MUNICIPAL EMPLOYMENT BY CITY SIZE

(Excludes hospital and education workers)

City Population Size	Number of Cities	Total Employees October 1985	% of Total Municipal Employees
300,000 and over	49	814,523	39%
50,000 to 299,999	377	462,949	22
Under 50,000	18,650	825,196	39
Total	19,076	2,102,668	100%

One purpose of the financial survey was to examine the trends in city employment which have occurred since 1985. Table III-12 shows little change in employment patterns over the two time periods.

TABLE III-12

MUNICIPAL PERSONNEL CHANGE BY CITY

City	1985 to 1986	1986 to 1987
Decreased Employment	30	27
Held Employment Constant	24	29
Increased Employment	46	44
	100%	;00%

We also found that 46 percent of responding cities increased employment in 1986, compared to 44 percent in 1987.

When we look at a regional breakdown of the responding cities that reported a reduction in employees, we obtained the results shown in Table III-13. More than one-fourth of those cities in all regions are cutting back municipal employment. This pattern holds over both time periods.

TABLE III-13

PERCENT OF CITIES DECREASING EMPLOYMENT BY REGION

Region	1985 to 1986	1986 to 1987
Total	30	27
Northeast	*	*
Northwest	26	26
South	31	30
West	33	25

*Too few respondents

When the cities that reported increasing employment were analyzed by region, we obtained the results shown in Table III-14. The percentage of cities adding employment has slowed slightly in each of the three regions for which we had sufficient data.

TABLE III-14

PERCENT OF CITIES INCREASING EMPLOYMENT BY REGION

Region	1985 to 1986	1986 to 1987
Total	46	44
Northeast	*	*
Northwest	40	37
South	50	48
West	51	47

*Too few respondents

This data, taken together, reveals a cautious approach city officials are taking toward workforce expansion, with one-fourth of respondents reducing employment for 1987.

CHAPTER IV

FEDERAL FUNDS, FEDERAL MANDATES AND CITY SERVICES

"Weekly prayer." (How the city of Nitro, West Virginia is responding to the loss of General Revenue Sharing.)

Art Ashley
Mayor
Nitro, West Virginia

"Federal cuts (pending) are mostly requiring a shift in expenditures."

James Malone
City Treasurer
Wheat Ridge, Colorado

Cities and towns exist, in part, to offer basic services to their citizens. They traditionally have paid for those services by raising revenue at the local level, usually through property taxes and user fees.

In recent decades, the federal government has provided additional money to cities and towns to help pay for programs and services citizens want, need or are mandated by the federal government to have, but which many cities and towns could not pay for themselves.

In the 1960s the "Great Society" programs of the Johnson Administration attempted to address the pressing needs of housing, poverty and unemployment in the nation's cities.

At the same time, heightened concern about the quality of the air, water and land meant more stringent--and more costly--requirements for sewage treatment, garbage disposal, hazardous waste disposal, stormwater run-off, and automobile emissions, among others.

Since the early 1980s the federal government has rapidly pulled back from its traditional financial partnership with cities and towns. In 1979 priority municipal programs received $55.5 billion in federal funds. By 1986 that had dropped to $25.6 billion ("Does the Federal Government Think Cities and Towns Are in the Public Interest?" NLC, March 1987).

Several questions on the State of the Small City Survey centered on how the loss of one federal program--General Revenue Sharing--has affected the services smaller cities and towns provide, and what fiscal changes they are making to absorb the loss of GRS. We also asked smaller communities to tell us how they're dealing with federal mandates and how they use money from the federal Community Development Block Grant program.

Before we discuss findings in those areas, we'll examine the level of services cities and towns provide.

Level of Services Cities and Towns Provide

Citizens expect their communities to provide basic services. For this survey we listed 15 common city services and asked respondents whether their cities and towns provided "more," "less," the "same" level or "none" of that service during the fiscal year ending in 1987 (Table IV-1). We also asked them what level of those same 15 services they would provide for the fiscal year ending in 1988 (Table IV-2).

About three-fourths of respondents are providing the same level of most services for 1987 as for the year before, and anticipate maintaining the same level of most services in 1988.

More than one-fourth (28 percent) of the respondents are offering more economic development services in 1987, and 30 percent anticipate stepping up economic development services in 1988.

As we learned earlier, cities and towns said their ability to attract industry and jobs was one of their top three problems for 1986 and 1987 (Table II-11). As we see from Table IV-1, one-third of respondents anticipate stepping up those services next year.

When we compared certain community conditions (Table II-10) with the level of some services cities will provide, we got some interesting results.

Economic Development Spending vs. Job Climate

Of the responding cities that said the ability to attract industry and jobs worsened during the past year, 23 percent reported they'll be spending more on economic development in that area in 1987; 48 percent will spend the same; 16 percent will spend less; and 13 percent anticipate spending nothing.

Of those who said they would spend more on economic development, 59 percent said the ability to attract industry and jobs improved, 14 percent said it worsened, and 27 percent reported not sure or no change.

Of those spending less on economic development, 12 percent said the ability to attract industry and jobs improved, 36 percent said it worsened, and 52 percent reported no change.

Areas where 20 percent or more of the respondents will offer a higher level of service in 1988 than 1987 are sewerage, streets, stormwater, water supply and police.

Many cities and towns across the country do not have direct responsibility for providing education, welfare and social services, so it is not surprising that 55 percent said their city is not providing those services in 1987 and will not provide them in 1988.

However, it is also interesting to note that 45 percent said they do provide some level of social services, which goes against the stereotype of cities as providers of only traditional programs and services (streets, garbage collection, water, etc.).

The survey showed that another service most smaller cities and towns do not provide is hazardous waste disposal. Three-fourths of the cities responding did not provide hazardous waste disposal services in 1987, and 68 percent don't anticipate providing that service in 1988.

In addition, 59 percent of respondents did not provide transportation services in 1987 and slightly fewer (56 percent) will not provide them in 1988.

TABLE IV-1

LEVEL OF SERVICE CITIES AND TOWNS EXPECT TO PROVIDE 1987

Service	More	Same	Less	None
Police	18%	77%	5%	0%
Fire	12	78	3	7
Streets	21	63	16	0
Transportation	4	35	2	59
Parks & Recreation	16	67	13	4
Libraries	7	51	5	37
Social Services	3	33	9	55
Welfare	0	12	1	87
Education	4	16	1	79
Water Supply	18	65	1	16
Sewerage	24	63	2	11
Stormwater Drainage	20	65	8	7
Hazardous Waste	0	25	5	75
Garbage Disposal	7	71	3	19
Economic Development	28	50	7	15

TABLE IV-2

LEVEL OF SERVICE CITIES AND TOWNS EXPECT TO PROVIDE FOR 1988

	Level by Percent			
Service	More	Same	Less	None
Police	20%	73%	7%	0%
Fire	15	74	5	6
Streets	25	54	21	0
Transportation	6	33	5	56
Parks	18	60	18	4
Libraries	7	49	9	35
Social Services	4	31	10	55
Welfare	2	11	2	85
Education	6	14	3	77
Water Supply	21	60	1	18
Sewerage	28	58	2	12
Stormwater	22	63	9	6
Hazardous Waste	7	24	1	68
Garbage Collection	9	67	4	20
Economic Development	30	46	9	15

Methods By Which Cities and Towns Provide Services

We also asked city officials how they provide 15 basic services. We gave them seven options for responding to each service:

1. My city/town does not provide this service.
2. My city/town had to discontinue this service.
3. My city raised additional revenue.
4. Joint service with nearby jurisdiction.
5. Offered by another jurisdiction/organization.
6. Contract service out to private contractor.
7. Private support or other.

As Table IV-3 shows, a large percentage of city officials who responded reported that their cities do not offer welfare (77 percent), hazardous waste disposal (74 percent), education (73 percent), transportation (60 percent), or social services (57 percent).

Responses to this question are similar to those received elsewhere on the survey, when respondents noted what level of service their cities are providing this year (Table IV-1), and what level of service their cities expect to provide in 1988 (Table IV-2).

Officials in a majority of cities have raised revenue to provide several basic services, including police (81 percent), streets (73 percent), fire (70 percent), stormwater (69 percent), sewerage (68 percent), parks (65 percent), and water (57 percent).

In addition, officials in 50 percent of cities have raised revenue for economic development activities. Twenty-one percent of responding cities do not provide economic development services.

Garbage was the service most often contracted out, by 32 percent of respondents. A very low percentage of cities contracted out other services, as Table IV-3 shows.

Results of this survey question show that officials in only a few cities are offering services jointly with other jurisdictions.

The response to this question also seems to indicate that officials in very few cities have been willing to discontinue services, even though their choice of "overall economic conditions" as one of their top problems suggests that many of them face fiscal constraints.

TABLE IV-3

HOW CITIES PROVIDE SERVICES

Service	Not Provided	Discon-tinued	Raised Revenue	Joint Service	Offered by Other	Contract Out
Police	3	9	81	5	2	0
Fire	11	7	70	5	6	1
Streets	5	12	73	3	2	5
Transportation	60	4	17	4	12	3
Parks	8	14	65	5	5	3
Libraries	42	3	30	11	13	1
Social Services	57	6	14	7	14	2
Welfare	77	3	1	18	0	1
Education	73	1	6	1	19	1
Water	23	7	57	3	8	3
Sewerage	10	9	68	5	6	2
Stormwater	10	13	69	4	1	3
Hazardous Waste	74	1	12	2	8	3
Garbage Disposal	15	6	42	1	4	32
Economic Development	21	8	50	8	6	7

The Loss of General Revenue Sharing

One of the most far-reaching and cost-effective partnerships between cities and the federal government was ended last year when the General Revenue Sharing program was discontinued, after 14 years in existence. Cities received their last GRS checks in October 1986.

The GRS program was the sole source of direct federal funds for many small communities, who used the no-strings-attached money for everything from police cars to street repairs. How cities are responding to the loss of GRS is the topic of this next section.

Fifty-seven percent of respondents to the survey said they received other federal money besides GRS during the last fiscal year; 43 percent said revenue sharing was their sole source of direct federal funds. Population was a significant factor determining whether a city reported receipt of other federal money.

Generally, the smaller the city, the more likely GRS was to be the only source of federal funds. Sixty-seven percent of the respondents under 1,000 reported GRS was their city's only source of federal funds, 56 percent of those between 1,000 to 5,000 said GRS was their sole source of federal funds, and 16 percent of cities from 40,000 to 50,000 reported the same.

TABLE IV-4

A POPULATION BREAKDOWN OF THE 43 PERCENT OF CITIES THAT SAID GENERAL REVENUE SHARING ONLY FEDERAL FUNDS RECEIVED

Population	
Less than 1,000	67%
1,000 to 4,999	56
5,000 to 9,999	49
10,000 to 19,999	45
20,000 to 29,999	37
30,000 to 39,999	46
40,000 to 50,000	16

We also asked city officials what percentage of revenue sharing they will spend during the current fiscal year for capital outlays (construction projects costing more than $10,000 or purchase of land or equipment having an expected life of five or more years). While capital outlays are often one-time or periodic expenses, they are essential expenditures to keep any city running smoothly.

Forty percent of the respondents said they'll spend all their city's GRS money for capital outlays during the current fiscal year, and 33 percent of those responding said they won't spend any of their GRS funds for capital outlays (Table IV-5).

TABLE IV-5

PERCENTAGE OF GRS SPENT FOR CAPITAL OUTLAYS IN 1987

PERCENT OF FUNDS	RESPONDENTS
0%	33%
1-24	6
25-49	4
50-74	6
75-99	11
100	40
	100%

Next, we asked cities and towns to tell us what percentage of general tax support GRS represented in their budgets for the current fiscal year.

More than half of the respondents (57 percent) said GRS represented less than five percent of their general tax support, and 27 percent said GRS represented less than 10 percent (Table IV-6).

TABLE IV-6

PERCENT OF GENERAL TAX SUPPORT GRS REPRESENTS

Percent of Tax Support	Percent of Respondents
Less than 5%	57%
5-9	27
10-14	9
15-19	2
20-24	2
25 to 49	1
50 to 74	1
75 to 100	1

We wanted to find out how much cities and towns would have to raise tax rates, if they had to replace GRS money with property tax revenue (Table IV-7).

Forty-three percent of the respondents said they would not have to raise property tax rates at all to maintain current services; eight percent said they'd have to raise property tax rates by less than one percent; 21 percent, by one to five percent; and 13 percent of respondents by five to 10 percent.

Fifteen percent of respondents said they would have to raise property tax rates by more than 10 percent to maintain the current level of services.

TABLE IV-7

GRS LOSS/IMPACT ON TAX RATE TO MAINTAIN SERVICES

	Percent of Respondents
No change	43%
Increase less than 1%	8
Increase between 1 - 5%	21
Increase between 5 - 10%	13
Increase more than 10%	15
	100%

A further analysis by region (Table IV-8) shows that 21 percent of the southern cities and 17 percent of the western cities reported they would have to increase their city property tax rates by more than 10 percent in order to replace GRS.

When we asked cities and towns whether they had the legal authority to raise property tax rates by the amount that would be necessary to maintain services with the loss of GRS, 67 percent said they had that authority.

TABLE IV-8

REGIONAL BREAKDOWN--LOSS OF GRS/IMPACT ON PROPERTY TAX RATE TO MAINTAIN SERVICES

Impact on Property Tax Rate	Region			
	Northeast	Midwest	South	West
No change	13%	43%	38%	57%
Increase less than 1%	20	9	6	7
Increase between 1 - 5	40	21	22	14
Increase between 5 - 10	27	17	13	5
Increase more than 10	0	10	21	17
Total	100%	100%	100%	100%

Furthermore, more than half of the cities surveyed (58 percent) said only the city council would have to approve the increase. Twenty percent said the council and the voters would have to approve such an increase; 10 percent said the voters only; and eight percent said that the state legislature or other state authority would need to approve the increase.

How Cities and Towns Will Compensate For Lost GRS Revenue

Now that GRS has been eliminated, city officials were asked to estimate the way the loss of funds would be handled. We presented them with eight catagories and asked to indicate, by a percentage, how their city would make up the loss of GRS funds.

The eight categories were: existing revenue, new local revenue sources, new state grants/revenues, spending cuts, service reductions, tax increase, postponement of capital outlays, or other means.

For example, city officials in Nitro, West Virginia will handle 50 percent of the loss by cutting spending; 25 percent by reducing services; and 25 percent by postponing capital outlays.

Like city officials in Nitro, 66 percent of those who responded will handle this loss by a combination of several actions (Table IV-9).

In contrast, 34 percent of respondents will handle the loss in only one way. Officials in 41 percent of those cities will handle the loss of GRS with revenue increases or tax increases. None of the officials from responding cities and towns said they would use service reduction as a sole means of compensating for the loss of GRS.

TABLE IV-9

HOW CITIES WILL HANDLE LOSS OF GRS

Action Cities Will Take	Percent of GRS Loss					
	0%	1-24%	25-49%	50-74%	75-99%	100%
Revenue Increase	23	25	13	15	3	21%
New Revenue Sources	33	36	11	8	4	8
New Grant/Revenues	61	23	7	2	5	2
Spending cuts	9	36	20	19	5	11
Service Reduction	35	42	14	7	2	0
Tax Increase	26	25	10	15	4	20
Postponement of Outlays	11	24	19	28	6	12
Other Means	33	16	6	16	4	25

GRS Loss and Service Reduction

When asked which services were reduced as a result of the elimination of GRS, only one service had been cut back in more than half of the responding cities and towns. Fifty-one percent of city officials said street services had been reduced due to GRS elimination; 37 percent have reduced parks and recreation; 24 percent have reduced police services, and 20 percent have cut back on fire services. (Table IV-10).

The response to this question shows that city officials are striving to maintain many basic services, despite the loss of GRS.

TABLE IV-10

SERVICE REDUCTION DUE TO LOSS OF GRS

Service	Yes
Streets and Roads	51%
Parks and Recreation	37
Police	24
Fire	20
Social Services	17
Storm Water Drainage	17
Garbage Collection	16
Economic Development	16
Libraries	13
Sewerage	10
Transportation	9
Water Supply	8
Welfare	5
Education	5
Hazardous Waste Disposal	3

The Community Development Block Grant

The Housing and Community Development Act was signed into law on August 22, 1974 by President Gerald R. Ford. Since then, millions of dollars have been pumped into communities across the country for housing and community development activities. This year the 100th Congress is grappling with whether to reauthorize the program.

As Table IV-11 shows, more than one-third (36 percent) of respondents to the survey said their cities did not receive any CDBG money during the last fiscal year. The remainder of cities received amounts ranging from $9,370 to $1.9 million.

TABLE IV-11

HOW MUCH CDBG MONEY DO SMALLER CITIES RECEIVE

Dollars	Percent of Respondents
0	36%
1 to 99,999	15
100,000 to 299,999	20
300,000 to 499,999	12
500,000 to 699,999	10
700,000 to 899,999	3
900,000 and above	4
	100%

Almost two-thirds of officials from responding cities and towns said their communities are using some of those funds for infrastructure, and 48 percent are using some of those funds for housing. Table IV-12 shows other ways cities are spending that money.

TABLE IV-12

HOW CDBG IS BEING USED

Program	Percent of Cities*
Infrastructure	61%
Economic Development	31
Housing	48
Human Services	27
Other	10

*Does not equal 100% due to multiple uses.

Federal Mandates and Small Communities

As noted earlier, federal aid to all cities and towns for priority programs has been cut from $55.5 billion in 1979 to $25.6 billion in 1986. That withdrawal of support for the nation's cities has made it difficult for many municipalities to pick up the cost of programs mandated by the federal government.

As part of our survey, we listed four of the most common federal mandates imposed on municipalities, and asked officials to note which were "causing problems" for their communities.

The choices were:

1. The Federal Water Pollution Control Act of 1972 (clean water).
2. Permits for stormwater sewers.
3. Employee benefits and rights.
4. RCRA (isolating landfill sites).
5. None of these are causing problems for my city/town.
6. Other (Please specify).

More than half of responding cities said clean water and employee benefits were mandates causing problems for their communities. (Table IV-13).

TABLE IV-13

PROBLEMS CAUSED BY MANDATES

Mandate	Percent of Cities Responding*
Clean Water	54%
Employee Benefits	51
RCRA	22
Stormwater/Sewers	14
None of those listed	2
Other	21

*Does not equal 100% due to multiple responses.

When we asked officials where their cities were getting the money to comply with those mandates listed in Table IV-13, we found that smaller communities are not relying on one source to raise the revenue needed.

The survey listed these options from which we asked city officials to choose:

1. Increase user fees.
2. Raise taxes.
3. Increase special assessments.
4. Cut spending in other areas.
5. All of the above.
6. Other (Please specify).

As Table IV-14 shows, 47 percent of those who responded indicated they would have to use all or several of those methods to cover the cost of mandates.

TABLE IV-14

HOW CITIES WILL PAY FOR FEDERAL MANDATES

Method	Percent
Increase User Fees	19
Raise Taxes	5
Increase Special Assessment	1
Cut Spending	10
All of the Above	18
Multiple Response	47
	100%

CHAPTER V

LEGAL LIABILITY AND SMALL COMMUNITIES

"The section on insurance is important; our major cost increases were in property and auto liability. Property went up 154 percent, and auto liability went up 74 percent."

A. Lee Galloway
City Manager
Rockingham, North Carolina

Over the last several years legal liability issues have become a particular problem for cities and towns across the country.

Among them:

- The vulnerability of municipalities to being sued, partly because the possibilities for suits are so numerous--everything from tripping on the sidewalk to getting injured during the local softball tournament. In addition, municipalities are perceived to have the "deep pockets" composed of taxpayers money, and thus the perceived ability to pay large awards if judged responsible.

- The availability of municipal liability insurance on the commercial market.

- The cost of municipal liability insurance, when it is available. Rates on insurance premiums have soared while limits of coverage have been reduced.

As part of our survey, we asked officials from small cities to assess the current liability situation in their communities.

As Table V-1 shows, eighty percent of those who responded said legal liability, the cost of liability insurance, and the fact that liability insurance just was not available remain either "critical" or "serious" problems. Seventeen percent said they remain "important, but no longer serious problems." Only three percent felt liability insurance was not a problem for their communities.

TABLE V-1
CURRENT EVALUATION OF THE LEGAL LIABILITY SITUATION

Evaluation	Percent of Respondents
Critical Problem	35
Serious Problem	45
Important, but not serious	17
No Longer a Problem	3
	100%

Next we asked city officials how they fund general liability protection for their cities. We gave them these choices:

1. Commercial insurance
2. Self-insured, completely city funded
3. Limited self-insured with supplemental commercial insurance
4. Insurance pools
5. My city has no provisions (or funds) for liability insurance

Forty percent of respondents buy insurance from the commercial market and 30 percent participate in insurance pools. Only 10 percent of communities responding are fully self-insured (Table V-2).

TABLE V-2

METHOD USED TO PROVIDE GENERAL LIABILITY INSURANCE

Method of Coverage	Percent of Responding Cities
Commercial Insurance	40
Self Insured, City Funded	10
Limited Self Insured	19
Insurance Pools	30
No Insurance	1
	100%

On further analysis, we found that city officials' perceptions of the seriousness of the legal liability problem correlates with the method by which their city finances the cost of their risk.

Ninety-one percent of cities which said legal liability issues remain critical or serious problems purchase insurance on the commercial market, while 78 percent of those which self-insure, 77 percent with limited self-insurance and 67 percent of cities that participate in pools said those remain critical or serious problems.

TABLE V-3

PERCEIVED LIABILITY PROBLEMS VS. METHOD USED TO PROVIDE INSURANCE

Evaluation	Commercial Insurance	Self Insured	Limited Self Insured	Pool	No Insurance
Critical Problem	42%	51%	30%	22%	100%
Serious Problem	49	27	47	45	0
Important	8	19	20	26	0
Not a Problem	1	3	3	7	0
	100%	100%	100%	100%	100%

What Liability Insurance Costs

In 1984, 79 percent of those cities that responded to the survey spent less than $75,000 annually on insurance premiums. By 1986, that had decreased to 40 percent. Table V-4 shows what responding cities and towns have spent on liability insurance premiums over the past three years.

TABLE V-4

LIABILITY INSURANCE PREMIUMS, 1984-1986

Premium	1984	1985	1986
0	2	2	3
$1 - 24,999	32	22	15
$25,000 - 49,999	26	18	11
$50,000 - 74,999	19	17	11
$75,000 - 99,999	6	4	12
$100,000 - 199,999	12	26	29
$200,000 and above	3	11	19
	100	100	100

Next we asked city officials to tell us what the deductible amount for their liability policies were over the last three years. As Table V-5 shows, 85 percent of respondents had a deductible of less than $10,000 in 1984; 82 percent in 1985, and 74 percent in 1986.

TABLE V-5

DEDUCTIBLE LIMITS ON LIABILITY INSURANCE POLICIES

Deductible Amount	Year		
	1984	1985	1986
$0 - 999	43	36	29
$1,000 - 9,999	42	46	45
$10,000 - 99,999	8	11	17
$100,000 - 199,999	5	3	6
$200,000 - 299,999	1	2	1
$300,000 - 399,999	1	1	1
$400,000 and above	0	1	1
	100%	100%	100%

When we asked city officials what their liability limits were, we found they had risen for the last three years in many communities. As Table V-6 shows, 33 percent of the respondents had liability limits of $500,001 to $1 million in 1984. In 1985, that rose to 44 percent, and in 1986, 50 percent of respondents had those limits.

TABLE V-6

LIMITS OF LIABILITY

Liability Limit	Percent of Respondents		
	1984	1985	1986
Under $10,000	4%	3%	3%
$10,001 - 500,000	29	27	25
$500,001 - 1,000,000	33	44	50
$1,000,001 - 6,000,000	20	17	19
Over $6,000,000	14	9	3

We next asked city officials how many awards or settlements of more than $200 their cities had paid out over the last three years or that were pending.

As Table V-7 shows, almost a third of responding cities did not pay any awards or settlements of more than $200 in 1984, 1985, or 1986, and 27 percent have no pending cases.

About half of the respondents paid awards or settlements of under $250,000 in those three years, and 41 percent have cases pending. Eight percent of cities reported cases pending that could result in settlements of more than $1 million.

TABLE V-7

TOTAL DOLLAR AMOUNT OF AWARDS AND SETTLEMENTS

Dollar Amount	Percent of Respondents			
	1984	1985	1986	Pending
No awards	34	30	30	27
Under 250,000	51	55	50	41
250,000-499,000	1	1	2	4
500,000-999,999	1	.5	--	2
Over a million	0	.5	0	8
Uncertain	13	13	14	18
	100%	100%	100%	100%

In addition, city officials were asked to list the total number of awards or settlements of more than $200 paid by their city. As we previously noted, there were cities that had no claims filed against them.

Officials from responding cities and towns reported that more than 90 percent of their awards or settlements were resolved outside the courtroom during 1984, 1985 and 1986. (Table V-8)

That is considerably above the 75 percent national average for out-of-court settlements by corporations and cities, as reported by several sources. It is possible that smaller cities and towns, many already facing financial hardships, can ill afford costly court battles.

TABLE V-8

TOTAL AWARDS AND HOW SETTLED 1984 - 1986

		How Settled	
Year	Number of Awards	In Court	Out of Court
1984	1,088	8%	92%
1985	1,220	8	92
1986	1,123	7	93

APPENDIX

STATE OF THE SMALL CITIES SURVEY
NATIONAL LEAGUE OF CITIES
395 Cities Responding

ALABAMA

Bay Minette
Dothan
Fairfield
Fayette
Foley
Gulf Shores
Hoover
Jasper
Midfield
Moulton
Scottsboro
Tuskegee
Uniontown

ALASKA

Valdez

ARIZONA

El Mirage
Flagstaff
Goodyear
Paradise Valley
Peoria
Show Low
Sierra Vista
Springerville
Yuma

ARKANSAS

Mulberry

CALIFORNIA

Arcadia
Arcata
Beverly Hills
Campbell
Cathedral City
Claremont
Cupertino
Duarte
Fontana
Indio
Lodi
Lomita
Los Alamitos
Martinez
Menlo Park
Montclair
Petaluma
San Gabriel
San Pablo
Santa Fe Springs
Santa Paula
Signal Hill

COLORADO

Brighton
Englewood
Estes Park
Glendale
Grand Junction
La Junta
Northglenn
Wheat Ridge

CONNECTICUT

Manchester
Torrington

DELAWARE

Dover
Newark
Smyrna

FLORIDA

Atlantic Beach
Boca Raton
Bradenton
Coral Gables
Davie
Delray Beach
Dunedin
Homestead
Jacksonville Beach
Melbourne
Naples
North Miami
Okeechobee
Oldsmar
Ormond Beach
Palm Bay
Palm Beach
Pinellas Park
Sanford
Sanibel
Sarasota
Sweetwater

GEORGIA

Augusta
Brunswick
Byron
Cartersville
College Park
Covington
Decatur
Hapeville
Moultrie
Norcross
Snellville
Social Circle
Summerville
Thomson
Waycross

IDAHO

Pocatello

ILLINOIS

Bellwood
Boling Brook
Carbondale
Country Side

ILLINOIS

Downers Grove
Evergreen Park
Farmer City
Hazel Crest
Lake Forest
Loves Park
Moline
Normal
Norridge
Paris
Quincy
Rock Island
Streamwood
Village of Buffalo Grove
Village of Glencoe
Westmont
Winnetka
Wood Dale

INDIANA

Beech Grove
Elkhart
Huntington
Kendallville
Kokomo
Nappanee

IOWA

Burlington
Cedar Falls
Fort Dodge
Indianola
Keokuk
Muscatine
Orange City
Ottumwa
Sioux Center
Urbandale

KANSAS

Beloit
Dodge City
Hillsboro
Liberal
Merriam
Ottawa
Pittsburg
Prairie Village

KENTUCKY

Burkesville
Covington
Florence
Frankfort
Franklin
Lebanon
Murray
Newport
Williamstown

LOUISIANA

Abbeville
Brusly
Estherwood
Franklin
Mandeville
Port Allen
Rayville
Thibidoux
White Castle

MAINE

Gorham

MARYLAND

Brunswick
Cheverly
Cumberland
Ocean City
Rockville

MASSACHUSETTS

Arlington
Stoneham
Worthington

MICHIGAN

Berkley
Gladwin
Grosse Pointe Woods
Highland Park
Holland
Hudson
Huntington Woods
Inkster
Madison Heights
Monroe
Muskegon Heights
Norton Shores
Romulus
Wayne

MINNESOTA

Austin
Champlin
Columbia Heights
Crystal
International Falls
Minnetonka
Northfield
North Mankato
Owatonna
Red Wing
Roseville
Saint Cloud
South Saint Paul
Willmar
Winona

MISSISSIPPI

Grenada
Gulfport
Hattiesburg
Laurel
Meridian
Morton
Natchez
Pontotoc
Tupelo

MISSOURI

Berkeley
Bridgeton
Cape Girardeau
Crestwood
Hazelwood
Kirksville
Lee's Summit
Maplewood
North Kansas City
Olivette
Poplar Bluff

MISSOURI

Richmond Heights
Saint Peters
University City
Warrensburg

MONTANA

Bozeman
Butte
Cut Bank
Missoula

NEBRASKA

Beatrice
Bellevue
Imperial
Kearney
Norfolk
North Platte
Scottsbluff
South Souix City
West Point
York

NEVADA

Caliente
Henderson
Sparks

NEW HAMPSHIRE

Salem
Portsmouth

NEW MEXICO

Artesia
Gallup
Los Alamos
Los Lunas

NEW YORK

Dunkirk
Fredonia
Port Jervis
Poughkeepsie
Scarsdale
Village of Port Chester
White Plains

NORTH CAROLINA

Asheboro
Burlington
Canton
Caroiina Beach
Conover
Fairmont
Garysburg
Goldsboro
Henderson
Hickory
Jacksonville
Kernersville
Lumberton
Madison
Mocksville
Reidsville
Rockingham
Scotland Neck
Statesville
Tarboro
Valdese
Whiteville

NORTH DAKOTA

Dickinson
Grafton
Grand Forks
Harvey
Williston

OHIO

Athens
Bedford Heights
Brook Park
Garfield Heights
Greenville
Grove City
Lyndhurst
Mayfield Heights
Mentor
Miamisburg
Newark
Oberlin
South Euclid
Tiffin
Trotwood
University Heights
Village of Carey
Village of Dublin
Wickliffe
Wooster

OKLAHOMA

Duncan
Grove
Guymon
McAlester
Moore
Ponca City
Shawnee
The Village

OREGON

Beaverton
Cottage Grove
Dallas
Gresham
Hermiston
Hillsboro
Lake Osuego
Milwaukie
Springfield
The Dalles

PENNSYLVANIA

York

SOUTH CAROLINA

Aiken
Anderson
Lancaster
Manning
North Myrtle Beach
Seneca
Tega Cay
West Columbia

SOUTH DAKOTA

Brookings
Pierre
Spearfish
Watertown

TENNESSEE

East Ridge
Etowah
Fayettville
Germantown
Lawrenceburg
Manchester
Morristown
Oak Ridge
Paris
Pulaski
Red Bank

TEXAS

Bellaire
Celburne
Copperas Cove
Denton
Eagle Pass
Edinburg
Everman
Grapevine
Greenville
Lake Jackson
La Porte
Pampa
Robstown
Saginaw
San Marcos
Spearman
Stephenville
Vernon
Wharton

UTAH

South Salt Lake

VERMONT

Battleboro
Burlington

VIRGINIA

Charlottesville
Chase City
Fairfax
Petersburg

WASHINGTON

Auburn
Bremerton
Edmonds
Kelso
Kent
Lynnwood
Mountlake Terrace
Oak Harbor
Puyallup
Redmond
Vancouver
Yakima

WEST VIRGINIA

Clarksburg
Nitro
Philippi
Vienna
Weirton

WISCONSIN

Beloit
Buffalo City
Greenfield

WYOMING

Cody
Douglas
Evanston
Gillette
Green River
Riverton
Sheridan

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AMERICA'S BIG CITY MAYORS:

A 1987 PROFILE

by

Edward C. Page
Visiting Associate Professor
Texas A & M University

and

Harold Wolman
Professor of Political Science
Wayne State University

and

Kathryn Shane McCarty
Director of Information Services
National League of Cities

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PREFACE

We are pleased to present this report on America's Big City Mayors: A 1987 Profile to NLC's membership and to the public. This joint effort was conducted by the National League of Cities and two university professors, Edward Page and Harold Wolman. Professors Page and Wolman conceived of conducting this study of the mayors of our largest U.S. cities and joined forces with NLC to design the survey instrument and conduct the survey.

This research effort began during the spring of 1987 by mailing a survey to all U.S. mayors serving in cities with populations over 100,000. The National League of Cities' Office of Membership Services initiated this effort.

The National League of Cities is publishing this report in order to contribute to a better understanding of the mayors serving as leaders in our major U.S. cities. Our research found a tremendous void in any comparative analysis of who serves as mayor in America's big cities. As the leaders and policy makers of our nation's large urban centers, information about the mayors of these cities is very important and should be readily available to other elected officials, the media and the general public.

This report presents the most timely and comprehensive information available on the men and women serving as the mayors in cities with populations over 100,000. We want to thank the authors of the report for their work and commend them for a job well done.

Drs. Page and Wolman tabulated and analyzed the results of this survey of big city U.S. mayors. They used the survey results to prepare a paper for the American Political Science Association and to draft this NLC research report.

Kathryn Shane McCarty, Director of Information Services at NLC, combined the resources of NLC and these two universities to implement effectively this joint study. Ms. McCarty is also a co-author and editor of this research paper.

Alan Beals
Executive Director

Thomas H. McCloud
Director, Office of Membership Services

William E. Davis, III
Director, Office of Policy Analysis and Development

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First, we would like to express our thanks to the 146 mayors, mayoral assistants and city clerks who completed our survey. Without their prompt and conscientious assistance, this report would not be possible. They have helped us shed some light on who the mayors are of America's largest cities.

Second, we wish to thank Mr. Thomas H. McCloud, Director of NLC's Office of Membership Services, and Mr. William Barnes, NLC's Research Director, for their review and guidance.

Third, a special thanks to David Cutler for his skillful assistance in restructuring and editing this report.

Finally, we thank Carolyn Brooking of the NLC staff for her diligence and skill in preparing this report for production.

Kathryn Shane McCarty
Director of Information Services
National League of Cities

Edward C. Page
Visiting Associate Professor
Texas A & M University

Harold Wolman
Professor of Political Science
Wayne State University

AMERICA'S BIG CITY MAYORS

By

Edward C. Page, Harold Wolman
and Kathryn Shane McCarty

National League of Cities

October, 1987

EXECUTIVE SUMMARY

In March 1987, the National League of Cities (NLC) conducted its first comprehensive survey of big city mayors in the United States. Questionnaires were sent to mayors of all cities in the 50 states, the District of Columbia and the territory of Puerto Rico with populations of 100,000 residents or more. There are 172 such cities in America today.

By June 1987, mayors of 146 cities (or 85 percent) had responded to the survey. These mayors answered questions about their lives, careers, education, elections, former political experience, length of service, salaries and plans for the future. Their collective responses form the substance of this report.

Big City Mayors as Candidates

- Most mayoral candidates who run and win in major U.S. cities are longtime residents of the communities they are elected to serve.
- More than three-quarters are college educated and just over half have also obtained advanced degrees.
- More lawyers seek mayoral office, and get elected, in big U.S. cities than candidates in other occupations.
- Nearly three-quarters of all big city U.S. mayors held previous electoral office, usually at the local level.

How The Candidates Get Elected

- Nearly nine out of ten big city U.S. mayors are elected by direct popular vote. The rest are elected indirectly -- either by city council members or because they ran for city council and received the highest number of votes.

- In direct elections, most big city mayors defeat their rivals by significant margins.

- Two-thirds of the nation's big city mayors are Democrats, nearly one-third are Republicans and less than 10 percent list their party affiliation as "independent" or "other".

- From 1970 to 1987, about one-half of 146 U.S. cities responding to NLC's survey have experienced little or no change in the party affiliation of the mayors elected during this 17 year period.

Profiles of America's Big City Mayors

- Blacks and hispanics now serve as mayors in 27 of the nation's largest cities.

- Exactly one in eight of today's big city U.S. mayors is a woman.

- When this survey was done, the average age of a big city mayor was 57 years old.

- As of May 1987, the average length of service in office for big city U.S. mayors was just under five years (59 months).

- Nearly 90 percent of all big city U.S. mayors make less than $70,000 per year. Nearly half (45 percent) of all big city mayors are paid annual salaries of between $30,000 - $70,000. About 24 percent receive less than $10,000 per year for serving as mayor.

Political Options After the First Term

- Two-thirds of America's incumbent big city mayors are presently serving four-year terms of office, while most of the rest are serving two-year terms.

- Incumbent big city U.S. mayors who choose to run for re-election win 85 percent of the time.

- One-quarter of big city U.S. mayors run for another office, usually at the local level.

- A little less than half of former big city mayors choose to retire voluntarily and return to private life. Exactly one-third of former big city mayors left office as a result of an electoral defeat.

I. INTRODUCTION

Ask any adult in a large American city about "the mayor" and chances are the person will probably know the mayor's name. Perhaps this is because mayors make decisions that often have direct consequences in our daily lives. In contrast, many voters may not know the names of their state or even national legislators.

It is ironic, then, that surprisingly little is written about America's 172 big city mayors as a group -- even though collectively they formulate policy and carry out executive decisions which directly affect the lives of nearly 60 million men, women and children each day.

There is no dearth of information about some of these mayors, who find themselves in the spotlight from time to time. In addition, some work has been done to document the recent rise of 47 distinguished blacks, hispanics and women who have been elected to serve as mayors in some of the nation's largest metropolitan areas.

Yet, overall research on mayors of large U.S. cities has been fragmentary. For this reason, the National League of Cities (NLC) has published this 1987 Profile Report about "America's Big City Mayors" to shed light on this fascinating and powerful group of American elected officials.

A total of 146 big city U.S. mayors answered survey questions about their lives, careers, education, means of getting elected, former political experience, length of service, salaries and plans for the future. The answers were then compiled and analyzed to formulate the substance of this report.

The survey results are completely set forth in the report's Executive Summary section of this report and again in detail at the beginning of each of the report's four chapters: "Big City Mayors As Candidates", "How the Candidates Get Elected", "Profiles of America's Big City Mayors" and "Political Options After the First Term". The chapter entitled "1987 Survey" describes the questionnaire that each of the mayors were asked to fill out and explains survey methodology.

II. THE 1987 SURVEY

> Who are the men and women serving as mayors of America's largest cities?
>
> How did they become candidates for office, how were they elected and what political and personal qualifications do they bring to their jobs?
>
> Do mayoral elections produce change in the leadership and political party affiliation of mayors of large U.S. cities?
>
> And what happens to big city U.S. mayors when they become incumbent and run again, seek other office or leave politics and return to private life?

These are some of the questions the National League of Cities (NLC) sought to answer in a questionnaire mailed during March, 1987 to all U.S. cities with estimated populations of 100,000 or more (see Appendix A). Based on 1985 population reports, there are 172 such cities in America today (including cities in the territory of Puerto Rico). See Appendix B for a listing of mayors serving in cities with populations over 100,000.

A total of 146 cities responded to an NLC survey which was mailed to mayors in cities with populations over 100,000 this spring. This indicates an 85 percent response rate, which is a remarkable yield for any mail questionnaire. A more typical response rate would have been 20-30 percent for a survey of this kind.

The survey consisted of 24 questions which focused on how mayors are chosen in a given city, party affiliation, election results, mayoral profiles and post-mayoral careers.

Information was also obtained on the previous mayors of these cities, such as party affiliation, term of office, post-mayoral career(s) and whether another elective office was sought after leaving the office of mayor.

Occasionally, totals reflected in the tabulated responses for certain questions amount to more or less than the overall number of 146 survey respondents because, in some cases, respondents left questions unanswered or there were multiple responses to certain survey questions. In addition, data gathered from NLC's annual membership survey is also used to supplement findings that appear in this report.

III. BIG CITY MAYORS AS CANDIDATES

Men and women who run for mayor and win in America's largest cities tend to be longtime residents of the communities they are elected to serve.

More than three-quarters are college educated--with at least a four-year degree--and just over half have also obtained advanced graduate degrees in law, government, business or some other professional vocation.

More lawyers seek mayoral office, and are elected, in big U.S. cities than persons in other occupations. People who work in local government and real estate developers are also disproportionately likely to run and win as mayors in big U.S. cities, followed closely by elementary/secondary school teachers and retailers/ wholesalers. These are the top five professions among big city mayors nationwide.

Nearly three-quarters of all big city U.S. mayors held previous electoral office, usually at the local level, before running and winning the mayoralty.

Length of Residence

The typical big city mayors will have spent about three-quarters (73 percent) of his or her life residing in the city where he or she chooses to run.

This term of residency remains fairly constant across the wide spectrum of population density in America's largest cities. In other words, it is as true of Mayor Edward I. Koch in New York (population 7.07 million) as it is of Mayor J. Michael Houston in Springfield, Illinois (population 100,054).

For virtually all U.S. cities with estimated populations of 100,000 or more, the mayors tend to be longtime residents of their communities before seeking public office.

This is especially true in large Northeastern cities where most successful mayors have lived in their communities virtually all --94 percent-- of their lives. Large cities in the Southeast, Southwest, the North Central states and Puerto Rico report mayors that have lived in their own communities at least three-quarters of their lives.

The term of residency for mayors in large western cities averages 60 percent, somewhat lower than the national average of 73 percent.

Education

One of the common characteristics of most big city mayors (80 percent) is a four-year college degree. Only 26 out of 141 respondents, or fewer than one in five, attained less than a four-year college degree in acquiring an education (Table 1).

Table 1

EDUCATIONAL ACCOMPLISHMENTS OF BIG CITY U.S. MAYORS

LEVEL OF EDUCATION	NUMBER	(PERCENTAGE)
Less than high school diploma	0	(0%)
High school diploma or equivalent	7	(5%)
Certificate from vocational training program	1	(1%)
Some college	14	(10%)
2-year college degree	4	(3%)
4-year college degree	41	(29%)
MA or equivalent	30	(21%)
JD or equivalent	36	(26%)
PhD or equivalent	6	(4%)
Other	2	(1%)
TOTAL	141	(100%)

The survey shows that no recent candidate became mayor of a large U.S. city with less than a high school diploma. Seven candidates (5%) had a high school diploma or equivalent, fourteen (10%) attended college but did not graduate, four (3%) graduated from two-year college programs and one winning mayoral candidate (1%) received certification from a vocational training program.

Among those mayors who did receive four-year college degrees, slightly more than two-thirds (68%) also went on to obtain advanced graduate degrees in law, government, business or some other professional vocation.

Prior Employment and Occupation

More of today's mayors came from the ranks of lawyers than from any other single profession. Out of 144 respondents, 38 (or 26 percent) practiced law before seeking election as mayor.

The other top four occupations from which big city mayors emerge are: local government (13 responses), real estate and development (11 responses), elementary and secondary education (9 responses) and retail/wholesale trade (9 responses). Those who indicated "local government" as their prior employment include both elected and appointed positions in local government. Table 2 shows the full range of occupations and prior employment of big city mayors.

Table 2

PRIOR OCCUPATIONS OF
BIG CITY U.S. MAYORS

OCCUPATION	NUMBER	(PERCENTAGE)
Law	38	(26%)
Local Government	13	(9%)
Real Estate & Development	11	(8%)
Elementary & Secondary Education	9	(6%)
Retail & Wholesale Trade	9	(6%)
Banking/Finance	8	(6%)
Higher Education & Research	7	(5%)
State Government	6	(4%)
Media/Advertising/Publishing	6	(4%)
Federal Government	4	(3%)
Medicine	3	(1%)
Insurance	2	(1%)
Telecommunications	2	(1%)
Manufacturing	1	(1%)
Environment/Natural Resources	1	(1%)
*Other	24	(17%)
TOTAL	144	(100%)

* The large "other" category includes, among others, three homemakers, three engineers, two funeral directors and eight listing their occupation simply as "business".

Perhaps the most revealing aspect of detailed responses to questions about occupation is that, with only one or two exceptions, respondents either owned their own companies or occupied managerial/professional positions (Table 3).

Table 3

EMPLOYMENT STATUS OF
BIG CITY U.S. MAYORS

EMPLOYMENT STATUS		NUMBER	(PERCENTAGE)
Managerial/Professional		106	(73%)
Owner of Own Company		29	(20%)
Not Employed/Retired		8	(6%)
*Other		2	(1%)
	TOTAL	145	(100%)

* Includes one response specifying "farmer".

Almost all mayors in the nation's largest cities move from managerial or professional positions into public office.

Prior Political Careers

Becoming mayor of a large U.S. city commonly means holding at least one previous electoral office first, most often at the local level.

Of 145 successful big city U.S. mayoral candidates, 107 (or 74 percent) said they had held prior elective office. The road to getting elected as mayor was usually begun by building upon the experience and endorsement of serving in local electoral positions. All but 19 of the mayor candidates who held prior elective office ran after serving on a city council or some other local political body (Tables 4 and 5).

Table 4

PRIOR ELECTORAL EXPERIENCE OF BIG CITY U.S. MAYORS

RESPONSES	NUMBER	(PERCENTAGE)
Yes	107	(74%)
No	38	(26%)
TOTAL	145	(100%)

Table 5

PRIOR ELECTIVE OFFICES HELD BY BIG CITY U.S. MAYORS *

OFFICE HELD	NUMBER	(PERCENTAGE)
Local	131	(88%)
State Legislature	12	(7%)
U.S. House of Representatives	4	(3%)
Other State Office	3	(2%)
TOTAL	150	(100%)

* Responses for this table were given by 107 successful big city U.S. mayors who held previous elected office. Multiple responses were possible.

Of the 19 big city mayors who served in other than local public office before being elected mayor, twelve were former state legislators, four were former members of the U.S. House of Representatives, two were lieutenant governors and one was an elected state judge.

As might be expected, among mayors chosen by a city council or other indirect means instead of by direct election, 15 out of 17 respondents (or 88 percent) had held previous electoral office. Only 92 out of 128 mayors chosen by direct election had held previous electoral office, again primarily at the local level.

IV. HOW THE CANDIDATES GET ELECTED

Nearly nine out of ten big city U.S. mayors are elected by direct popular vote. The rest are elected indirectly -- either by city council members or because they ran for city council and received the highest number of votes.

In direct elections, most big city U.S. mayors defeat their rivals by significant margins. Three-quarters win by 10 percent of the vote or more, and one-quarter win by landslides, defeating their opponents by more than 50 percentage points.

Most mayors of large U.S. cities are elected on non-party ballots. Yet, two-thirds of the nation's big city mayors report they are Democrats, nearly one-third say they are Republicans and less than 10 percent list their party affiliation as "independent" or "other".

From 1970 to 1987, about one-half of all major U.S. cities responding to the NLC survey have elected mayors belonging to the same political party throughout the entire period.

Direct and Indirect Elections

While mayors are elected officials in all major U.S. cities, they are not always chosen by direct popular vote (Table 6). Out of 146 cities responding, 129 (or 88 percent) report their mayors were chosen by the voters of the city in direct elections. Nearly nine out of ten big city U.S. mayors run and get elected as chief executive officers of their cities.

Table 6

METHODS OF ELECTION FOR
BIG CITY U.S. MAYORS

METHOD OF ELECTION	NUMBER	(PERCENTAGE)
Direct popular vote	129	(88%)
Chosen by city council	14	(10%)
City Council member receiving most votes	3	(2%)
TOTAL	146	(100%)

On the other hand, 17 major U.S. cities report two other ways of choosing mayors besides direct election -- (1) the majority choice of elected city council members or (2) the choice of the city council nominee who receives the highest number of votes during a general election. A mayor elected by either of these indirect procedures becomes presiding officer over a city council, and can vote for or against any legislation brought before the council for consideration and review.

No U.S. city with a population of more than 400,000 residents reports using indirect procedures to elect its mayor. As Table 7 shows, most of the 17 cities where mayors are elected by indirect procedures are in the southern and western regions of the country.

Table 7

METHODS OF ELECTION FOR
BIG CITY U.S. MAYORS

U.S. REGION	DIRECT ELECTIONS	INDIRECT ELECTIONS	TOTAL (CITIES)
Northeast States	18	1	19
North Central States	30	2	32
Southern States	35	6	41
Western States	43	8	51
Puerto Rico	3	0	3
TOTALS	129	17	146

Margins of Victory

Big city U.S. mayoral elections are rarely close. In fact, 7 out of 120 responding cities report their mayors faced no competition at all in the last election. Of the remaining 113 major U.S. cities where mayors were directly elected and faced opposition, only 28 mayors (or 23 percent) won with an electoral margin of ten percent or less.

About three-quarters of all big city U.S. mayors report winning their elections by significant margins of victory. One-quarter even won by landslides, defeating their opponent by more than fifty percentage points (Table 8).

Table 8

MARGINS OF VICTORY FOR MAYORS IN LARGE U.S. CITIES WITH DIRECT ELECTIONS

MARGIN OF VICTORY *	NUMBER OF CITIES	(Cumulative) (PERCENTAGE)
(Unopposed)	(7)	(N/A)
0 - 2%	9	8 %
3 - 6%	9	15 %
7 - 10%	10	23 %
11 - 15%	15	36 %
16 - 20%	12	46 %
21 - 25%	7	52 %
26 - 35%	11	61 %
36 - 50%	18	76 %
Over 50%	22	100 %
TOTAL	120	100 %

* Margin of victory is the percentage of vote for the mayor minus percentage of vote for his or her opponent.

These margins of victory for big city U.S. mayors do not seem to vary significantly by either population size or region.

This study, for the first time, helps to chart some electoral landmarks for big city U.S. mayors who won by a direct election. Nationwide, the median margin of victory in big city mayoral races was about 23 percent. In a two-way race,this means winning 61.5 percent of the votes to an opponent's 38.5 percentage share of the general electorate.

Party and Non-party Ballots

Most major U.S. cities elect their mayor on non-party ballots. Out of 144 cities responding to the NLC survey, two-thirds of the cities using direct election procedures do not list party affiliation next to the names of mayoral candidates on their ballots. Every city using indirect election procedures to select the mayor chooses the mayor on a non-partisan basis (Table 9).

Table 9

PARTY AND NON-PARTY BALLOTS IN BIG CITY U.S. MAYORAL ELECTIONS

	DIRECT ELECTIONS		INDIRECT ELECTIONS	
BALLOTING	Number	(Percentage)	Number	(Percentage)
Non-party Ballots	85	(66%)	16	(100%)
Party Ballots	43	(34%)	0	(100%)
TOTALS	128	(100%)	16	(100%)

There are some regional variations among the 43 major U.S. cities that do use party ballots to elect their mayors. Fourteen of the nineteen major cities (or 74 percent) in the Northeast and 12 of 31 major cities (or 39 percent) in the North Central states report using party ballots during mayoral elections. By contrast, party ballots are used in 12 of 41 major cities (or 29 percent) in the South and only 2 of 50 major cities (or 4 percent) in Western states. All three Puerto Rican cities responding to this question use party ballots.

The predominance of non-party mayoral ballots in major cities does not mean that big city mayors refrain from identifying with a major political party. Of 140 mayors who answered a question about party affiliation regardless of whether such a designation appeared on their city ballots, 90 identified themselves as "Democrats", 39 as "Republicans", and only 11 as "independent" or "other" (Table 10).

Table 10

PARTY AFFILIATIONS OF BIG CITY U.S. MAYORS

PARTY	NUMBER	(PERCENTAGE)
Democrat	90	(64%)
Republican	39	(28%)
Independent/Other	11	(8%)
TOTAL	140	(100%)

Republican mayors are more likely to get elected in cities with populations of 200,000 residents or less than they are in larger cities. Only 10 of 59 mayors of cities with populations over 200,000 (or 17 percent) identify themselves as Republicans, while 29 of the 81 cities with populations between 100,000 and 200,000 (or 36 percent) report having Republican mayors at the time of this survey (Table 11).

Table 11

PARTY AFFILIATIONS OF BIG CITY U.S. MAYORS BY CITY POPULATION SIZE

CITY SIZE	DEMOCRAT	REPUBLICAN	INDEPENDENT
100,000 - 200,000	45	29	7
200,000 - 400,000	27	6	1
Over 400,000	18	4	3
TOTALS	90	39	11

Democratic mayors of major U.S. cities tend to be spread evenly throughout all regions of the country. Republican mayors, on the other hand, are more likely to be found in major cities of western states (20 out of 49 big city mayors in the region, or 41 percent) and least likely to be found in major Northeastern cities (2 out of 19 mayors, or 11 percent). See Table 12 for the break-down by regions.

Table 12

PARTY AFFILIATIONS OF BIG CITY MAYORS BY REGION

U.S. REGION	DEMOCRAT	REPUBLICAN	INDEPENDENT
Northeast States	17	2	0
North Central States	20	7	5
Southern States	27	10	3
Western States	26	20	3
TOTALS	90	39	11

As Table 13 shows, large U.S. cities which use party ballots are more likely to elect Democrats than are cities which use non-party ballots. Republicans and Independents apparently are more successful in non-party ballot cities than in party ballot cities.

Table 13

PARTY AFFILIATIONS
OF BIG CITY U.S. MAYORS --
PARTY VS. NON-PARTY BALLOTS

PARTY	PARTY BALLOT		NON-PARTY BALLOT	
	Number	(Percentage)	Number	(Percentage)
Democrat	33	(83%)	55	(56%)
Republican	7	(18%)	32	(33%)
Independent/Other	0	(0%)	11	(11%)
TOTALS	40	(101%)	98	(100%)

Out of 40 major U.S. cities using party ballots, 33 (or 83 percent) had Democratic mayors. This percentage was much lower among Democratic mayors in U.S. cities using non-party balloting procedures. By contrast, very few Republicans (only 7 out of 40 or 18 percent) were mayors of large U.S. cities where party ballots were used. However, this percentage was somewhat higher (33 percent) in U.S. cities using non-party ballots.

All mayors who identified their party affiliation as "other" or "independent" were elected in cities using non-party ballots.

Party Politics and Electoral Change

How often do mayoral elections bring about changes in the political party affiliation of mayors in large U.S. cities?

A comparison of party affiliations of current and immediate past mayors in major U.S. cities shows a surprising amount of party turnover (Table 14).

Table 14

PARTY AFFILIATIONS
OF FORMER & CURRENT
BIG CITY U.S. MAYORS

FORMER MAYOR	CURRENT MAYOR	NUMBER	(PERCENTAGE)
Democrat	Democrat	51	(43%)
Democrat	Republican	16	(13%)
Democrat	Ind/Other	4	(3%)
Republican	Republican	17	(14%)
Republican	Democrat	19	(16%)
Republican	Ind/Other	2	(2%)
Ind/Other	Ind/Other	5	(4%)
Ind/Other	Democrat	4	(3%)
Ind/Other	Republican	2	(2%)
	TOTAL	120	(100%)

While 73 cities (61 percent) reported no change in party affiliation between former big city U.S. mayors and their current successor, 47 cities (39 percent) did report that the former mayor's political party was different from that of the current mayor.

Twenty-eight percent of the major U.S. cities with Democrats as former mayors subsequently elected a Republican or a non-Democrat to the job. More striking, Republicans consistently lost more cities than they held on to from one election to the next.

Of course, to look only at "former mayors" does not reveal much about the regularity of electoral change in big city mayoral politics. In some cities, it can refer to change that has taken place in recent months, while in others (where an incumbent has been re-elected many times) the events may be as much as two decades old.

Thus, if we examine the period of five years between 1980 and 1985, Table 15 shows that there is considerable stability in the party affiliations reported by mayors who served in major U.S. cities during this time.

These data show that in 97 out of 121 major U.S. cities (or 80 percent) there was no change in party affiliation among mayors who served in 1980 and mayors who served in 1985.

Table 15

PARTY AFFILIATIONS OF BIG CITY U.S. MAYORS (1980 & 1985)

MAYOR (1980)	MAYOR (1985)	NUMBER	(PERCENTAGE)
Democrat	Democrat	67	(55%)
Democrat	Republican	11	(9%)
Democrat	Ind/Other	3	(2%)
Republican	Republican	22	(18%)
Republican	Democrat	6	(5%)
Republican	Ind/Other	1	(1%)
Ind/Other	Ind/Other	8	(7%)
Ind/Other	Democrat	2	(2%)
Ind/Other	Republican	1	(1%)
	TOTAL	121	(100%)

Taking an even longer term view, it is possible to examine big city U.S. mayors and their party affiliations over a period of 17 years, from 1970 to the present. Using data compiled since 1970 on 115 major U.S. cities, Table 16 shows that about one-half of the 115 cities have been served by mayors belonging to the same political party during this seventeen year period.

Table 16

PARTY CONTROL OF MAYORAL OFFICE IN MAJOR U.S. CITIES * (1980 & 1985)

SINGLE-PARTY CITIES		DOMINANT-PARTY CITIES		ALTERNATING CITIES	
Solid Democrat	46	Mostly Democrat	13	Alternate D&R	28
Solid Republican	7	Mostly Republican	9	Alternate D&I	1
Solid Ind/Other	6	Mostly Ind/Other	2	Alternate R&I	1
				Alternate D&I	2
TOTALS	59		24		32

* Single-party cities are those in which all mayors belonged to the same party since 1970. Dominant-party cities are those in which only one mayor from a party other than the dominant one was elected. Alternating cities are those in which at least two or more mayors from any party got elected to office since 1970.

Moreover, the dominance of the Democratic party in large U.S. cities is noticeable, with 46 major U.S. cities (78 percent) returning a Democratic mayor to office in every election since 1970. Democrats have strongly dominated mayoral elections in many major U.S. cities for the past quarter of a century. An additional 24 cities are dominant party cities, showing relatively little change in terms of the party affiliation of the mayor since 1970.

It is also the case that "solidly" Democratic major U.S. cities were more likely to have higher numbers of minorities (38 percent as against 23 percent in other cities). Other than this observation, there are few other distinctive socio-economic or regional differences between the different types of cities set out in Table 16.

V. PROFILES OF AMERICA'S BIG CITY MAYORS

Blacks and hispanics now serve as mayors in 27 of the nation's largest cities. Blacks and hispanics have captured more big city mayoral elections in the South than anywhere else in the nation.

Exactly one in eight of today's big city U.S. mayors is a woman. More women mayors of large cities can be found in western states (especially California) than anywhere else in the country.

When this survey was done, the average age of a big city U.S. mayor was 57 years old. At 28 years old, Mayor Joseph J. Santopietro of Waterbury, Connecticut is the nation's youngest big city mayor, while 73-year old Mayor Wayne Corpening of Winston-Salem, North Carolina is the oldest.

As of May, 1987, the average length of service in office for big city U.S. mayors was just under 5 years (59 months). The nation's longest serving big city mayor, Mayor Henry W. Maier of Milwaukee, Wisconsin, took his first oath of office in April, 1960.

Close to 90 percent of all big city U.S. mayors are paid less than $70,000 per year. About 45 percent receive annual salaries of between $30,000 and $70,000.

Racial Background

Over the past fifteen years, the number of black and hispanic mayors has increased significantly and minority officials have gained an increasing amount of political influence in major U.S. cities. According to the Joint Center for Political Studies, in 1970, only 1,469 blacks held elective office at any level of government -- federal, state or local. As of 1986, the number of black elected officials serving in all three levels of government has increased to 6,424. Unfortunately, a similar comparison among hispanic elected officials is not possible, since the data on who served in office in 1970 is not readily available.

Of the 172 mayors for which data were available from the NLC annual membership survey (excluding those in Puerto Rico), 145 (or 84 percent) are white, 21 (or 12 percent) are black, 5 (or 3 percent) are hispanic and one -- Mayor Frank Fasi of Honolulu, Hawaii -- is a Pacific Islander (Tables 17 and 18).

Table 17

RACIAL BACKGROUND
OF BIG CITY U.S. MAYORS BY REGION *

RACE	NORTHEAST	NORTH CENTRAL	SOUTH	WEST	TOTAL
	Nbr (%)	Nbr (%)	Nbr (%)	Nbr (%)	Nbr (%)
White	20 (87%)	36 (87%)	31 (69%)	58 (92%)	145 (84%)
Black	3 (13%)	5 (12%)	11 (24%)	2 (3%)	21 (12%)
Hispanic	0 (0%)	0 (0%)	3 (7%)	2 (3%)	5 (3%)
Pacific Islander	0 (0%)	0 (0%)	0 (0%)	1 (1%)	1 (1%)
TOTALS	23 (100%)	41 (99%)	45 (100%)	63 (99%)	172 (100%

* Excludes Puerto Rico, where all big city mayors are of hispanic origin.

Source: NLC Annual Membership Survey

Presently black and hispanic mayors hold the mayoral office in 27 of America's largest cities. In fact, mayors of U.S. cities with populations over 200,000 were more likely to be black or hispanic than in cities of lesser size. There are presently 21 black mayors serving in cities over 100,000 population (Table 18). In the United States and its territories, ten hispanic mayors preside over the affairs of the large cities in which they are elected (Table 19).

Table 18

BLACK MAYORS IN AMERICA'S BIG CITIES

NAME	CITY SIZE	POPULATION
Harold Washington	Chicago, IL	3,005,072
Tom Bradley	Los Angeles, CA	2,968,580
W. Wilson Goode	Philadelphia, PA	1,688,210

Table 18 (cont.)

NAME	CITY SIZE	POPULATION
Coleman A. Young	Detroit, MI	1,203,370
Clarence H. Burns	Baltimore, MD	786,741
Marion S. Barry, Jr.	Washington, DC	638,432
Sidney J. Barthelemy	New Orleans, LA	557,927
Andrew Young	Atlanta, GA	425,022
Lionel J. Wilson	Oakland, CA	339,288
Sharpe James	Newark, NJ	329,248
Harvey B. Gantt	Charlotte, NC	315,474
Richard Arrington, Jr.	Birmingham, AL	284,413
Roy A. West	Richmond, VA	219,214
Richard C. Dixon	Dayton, OH	193,536
James A. Sharp, Jr.	Flint, MI	159,611
Lottie Shackelford	Little Rock, AR	158,915
Richard G. Hatcher	Gary, IN	151,968
Jessie M. Rattley	Newport News, VA	144,903
Thirman L. Milner	Hartford, CT	136,392
James W. Holley, III	Portsmouth, VA	104,577
Noel C. Taylor	Roanoke, VA	100,427

Table 19

HISPANIC MAYORS IN CITIES OVER 100,000

NAME	CITY SIZE	POPULATION
Henry G. Cisneros	San Antonio, TX	785,940
Federico Pena	Denver, CO	492,686
Baltasar Corrada Del Rio	San Juan, PR	432,973
Xavier L. Suarez	Miami, FL	346,931
Ramon L. Rivera	Bayamon, PR	195,965
Jose Dapena Thompson	Ponce, PR	188,219
Angel O. Berrios	Caguas, PR	118,020
Jose E. Aponte LaTorre	Carolina, PR	165,207
Raul L. Martinez	Hialeah, FL	145,254
Ron Gonzales	Sunnyvale, CA	106,618

Table 17 also illustrates that blacks and hispanics have captured more big city U.S. mayoral elections in Southern states (14 out of 45 or 31 percent) than in any other region of the country. In the North Central states, there are 5 black and no hispanic big city U.S. mayors out of a total of 41 (or 12 percent), while in the West there are 4 black and hispanic big city mayors out of a total of 63 (or 6 percent).

The fewest number of black and hispanic big city U.S. mayors are to be found in the Northeast, where only 3 black mayors out of a total of 23 mayors (or 13 percent) now hold office in their respective cities.

Gender

An increasing number of women have been elected as mayors of major U.S. cities over the past ten years. Out of 172 big city U.S. mayors who responded to NLC's 1987 Annual Membership Survey, 151 (or 88 percent) are men and 21 (or 12 percent) are women. This means that, while there are slightly more women than men in the total U.S. populations, only one in eight of today's big city U.S. mayors is a woman (Table 20).

Table 20

BIG CITY U.S. MAYORS BY GENDER AND REGION *

GENDER	NORTHEAST Nbr (%)	NO. CENTRAL Nbr (%)	SOUTH Nbr (%)	WEST Nbr (%)	TOTAL Nbr
Male	23 (100%)	38 (93%)	39 (87%)	51 (81%)	151
Female	0 (0%)	3 (7%)	6 (13%)	12 (19%)	21
TOTALS	23 (100%)	41 (100%)	45 (100%)	63 (100%)	172

* Excludes Puerto Rico, where all five mayors serving in cities over 100,000 population are male.

Source: NLC Annual Membership Survey

Table 20 shows there are no big city women mayors in the Northeast or in Puerto Rico while more women mayors of large cities can be found in Western states (especially California) than anywhere else in the country. This can also be seen in Table 21, where the nation's big city women mayors and the cities they represent are listed.

Table 21

BIG CITY WOMEN MAYORS
IN THE UNITED STATES

NAME	CITY SIZE	POPULATION
Kathryn Whitmire	Houston, TX	1,594,086
Annette Strauss	Dallas, TX	904,599
Maureen O'Connor	San Diego, CA	875,504
Dianne Feinstein	San Francisco, CA	678,974
Donna Owens	Toledo, OH	354,635
Anne Rudin	Sacramento, CA	275,741
Sandra W. Freedman	Tampa, FL	271,577
Betty Turner	Corpus Christi, TX	232,134
Vicki McNeill	Spokane, WA	171,300
Lottie Shackelford	Little Rock, AR	158,915
Barbara Fass	Stockton, CA	149,779
Jessie M. Rattley	Newport News, VA	144,903
Ginger Bremberg	Glendale, CA	139,060
Katy Geissert	Torrance, CA	131,497
Evlyn Wilcox	San Bernardino, CA	118,794
Mara Giulianti	Hollywood, CA	117,188
Linda L. Shaw	Lakewood, CA	113,808
Barbara J. Potts	Independence, MO	111,797
Jean DiRezze-Gush	Sterling Heights, MI	108,999
Peggy Mensinger	Modesto, CA	106,963
Loni Hancock	Berkeley, CA	103,328

As it turns out, Tables 20 and 21 illustrate that the proportion of big city women mayors is higher for cities of between 100,000 to 200,000 residents than for cities with populations of over 200,000 residents. In the latter case, the same proportion of women were chosen as mayors by direct popular vote as were chosen by indirect election procedures.

Age and Length of Service

The average age of big city U.S. mayors at the time of this survey was 57 years old. At 28 years old, Mayor Joseph J. Santopietro of Waterbury, Connecticut is the nation's youngest big city mayor, while 73 year old Mayor Wayne A. Corpening of Winston-Salem, North Carolina is the oldest.

As of May 1987, the average length of service in office for big mayors was just under 5 years (59 months). However, many (51 mayors or 35 percent) reported they had only been in office for two years or less, and a smaller number (27 mayors or 19 percent) said they had served for two to four years (Table 22).

Table 22

LENGTH OF SERVICE FOR BIG CITY U.S. MAYORS

TIME IN OFFICE	NUMBER	(PERCENTAGE)
0-2 Years	51	(35%)
2-4 Years	27	(19%)
4-10 Years	53	(37%)
10-20 Years	12	(8%)
Over 20 Years	2	(1%)
TOTAL	145	(100%)

Big city U.S. mayors who are elected by direct popular vote serve on the average of five and one half years (65 months), while mayors of large U.S. cities elected by indirect procedures serve on the average of just over one year (14 months).

The longest serving big city U.S. mayor responding to this survey -- Mayor Henry Maier of Milwaukee, Wisconsin -- took his first oath of office in April, 1960. The three mayors of major U.S. cities to serve more than 20 years in office are Mayors Henry Maier of Milwaukee, Thomas G. Dunn of Elizabeth, New Jersey and Louis J. Tullio of Erie, Pennsylvania. This year marks Mayor Tullio's twenty year anniversary as mayor and Mayor Dunn has served for 22 years.

Salaries

Nearly 90 percent of all big city U.S. mayors make less than $70,000 per year. Nearly half (45 percent) of all big city mayors in the United States are paid annual salaries of between $30,000 - $70,000. A quarter of those surveyed (24 percent) receive less than $10,000 per year for serving as mayor. Table 23 shows that mayors in cities with populations of 100,000 to 200,000 residents tend to get paid far less than mayors of larger U.S. cities.

Table 23

ANNUAL SALARY RANGES
OF BIG CITY MAYORS IN THE U.S.
(By City Size in Thousands)

	CITY POPULATION			
SALARY RANGE	100-200	200-500	Over 500	TOTAL
Below $10,000	25	7	2	34
$10,000-$30,000	20	9	0	29
$30,000-$50,000	17	5	3	25
$50,000-$70,000	18	17	5	40
$70,000-$90,000	2	4	5	11
$90,000-$110,000	0	0	3	3
Over $110,000	0	0	0	0
TOTALS	82	42	18	142

Moreover, there was a clear difference in the survey between salary ranges of big city mayors elected by direct popular vote and mayors elected by indirect election procedures.

More than one-half of big city mayors elected indirectly (9 out of 17 respondents) reported receiving salaries of less than $10,000 per year. Mayors elected by direct popular vote generally received much higher annual salaries in major cities throughout the country. In most instances, the level of compensation is commensurate with the level of managerial and administrative oversight of the city's operations.

VI. POLITICAL OPTIONS AFTER THE FIRST TERM

Two-thirds of America's incumbent big city mayors are now serving terms of office lasting four years, while most of the remainder are currently serving two-year terms.

Whenever a big city mayor's term of office draws to a close, the first political option every incumbent mayor faces is whether to seek re-election. Incumbent mayors who do choose to run stand a very good chance of being re-elected, winning 85 percent of the time.

One-quarter of incumbent big city U.S. mayors run for another office, usually at the local level. A little less than half of former big city mayors surveyed retired voluntarily and returned to private life.

Exactly one-third of former big city U.S. mayors who left office did so due to electoral defeat in either a primary or general election.

Terms of Office

Sixty-five percent of America's big cities have mayoral terms of office lasting four years, while 32 percent of these big cities have two-year terms (Table 24).

Table 24

TERMS OF OFFICE FOR
BIG CITY U.S. MAYORS

TERM IN OFFICE	ALL CITIES		DIRECT ELECTION		INDIRECT ELECTIONS	
	Nbr	(%)	Nbr	(%)	Nbr	(%)
1 year	2	(1%)	0	(0%)	2	(12%)
2 years	45	(32%)	33	(27%)	12	(71%)
3 years	3	(2%)	3	(2%)	0	(0%)
4 years	91	(65%)	88	(71%)	3	(18%)
TOTALS	141	(100%)	124	(100%)	17	(101%)

Source: NLC Annual Membership Survey

Out of 141 major U.S. cities, the 17 cities with mayors elected by indirect procedures tend to have shorter mayoral terms of office. Two have one-year terms, twelve have two-year terms and only three reported having four-year terms.

The terms of office for incumbent big city U.S. mayors also vary by region, as shown in Table 25, with two-year terms being relatively more common in Western states.

Table 25

TERMS OF OFFICE FOR
BIG CITY U.S. MAYORS BY REGION

U.S. REGION	1-YEAR	2-YEAR	3-YEAR	4-YEAR	TOTAL
Northeast States	0	8	0	14	22
North Central States	1	10	0	29	40
Southern States	0	15	1	28	44
Western States	3	25	2	32	62
Puerto Rico	0	0	0	2	2
TOTALS	4	58	3	105	170

Incumbents Who Seek Re-election

Whenever a mayor's term of office draws to a close, the first political option every incumbent faces is whether to seek re-election. Despite the relatively high amount of mayoral turnover in large American cities (documented in Section IV), incumbent big city mayors who do choose to run stand a very good chance of being re-elected.

Since 1970, (the earliest year for which NLC has data) mayoral incumbents in the 88 major U.S. cities with directly elected mayors ran for re-election 270 times out of a total of 426 elections and won a total of 229 times. This indicates a re-election success rate for incumbent big city U.S. mayors of 85 percent, a rate that parallels reported success rates of 80-90 percent enjoyed by incumbents in state and federal legislative elections.

Incumbents Who Run For Another Office

According to NLC data from this survey, exactly one-quarter (32) of the 128 prior big city mayors chosen by direct popular vote ran for another office of some kind. Those ex-mayors who did run for other positions primarily sought other local offices, as Table 26 shows.

Table 26

OTHER POLITICAL OFFICES SOUGHT BY
BIG CITY U.S. MAYORS

OFFICE	# SEEKING OFFICE	# WINNING OFFICE
Local Office	17	6
State Legislature	5	1
Other State Office	3	3
Governor	5	2
U. S. House of Represent.	1	1
U. S. Senate	1	1
TOTALS	32	14

While 17 of 32 previous big city mayors sought other local elected offices, 13 sought higher office at the state level and two ran for national political offices. The likelihood that these former big city U.S. mayors would seek other offices did not vary significantly by region or city population size, nor did these factors affect the type of offices that incumbent mayors sought. Most mayors of large U.S. cities appear to be, first and foremost, local politicians. As previously stated, most of them have served as local elected officials before serving as mayor.

Incumbents Who Return to Private Life

Since so few ex-mayors who run for re-election by direct popular vote get defeated, it might be naturally supposed that most mayors of large American cities retire voluntarily. The survey results indicate that of the 35 percent of former big city U.S. mayors who did not run for re-election, a little less than half (48 percent) chose to retire from office and return to private life (Table 27).

Table 27

REASONS GIVEN WHY FORMER BIG CITY U.S. MAYORS LEFT OFFICE *

REASON FOR LEAVING OFFICE	NUMBER	(PERCENTAGE)
Voluntarily retired	62	(48%)
Defeated in primary election	14	(11%)
Defeated in general election	28	(22%)
Legally prohibited from seeking re-election	7	(5%)
Died in office	2	(2%)
Recalled	1	(1%)
Other	15	(12%)
TOTAL	129	(101%)

* This table presents figures for former big city U.S. mayors who were elected by direct popular vote only. In most cases, indirectly elected mayors were chosen from a city council for short terms and then returned to the council after their term of office had ended.

Exactly one-third of former big city mayors who left office did so due to electoral defeat in either a primary or general election. Seven had served as long as they could by law, two died in office and one left office due to a recall vote.

There were fifteen mayors who left office and cited other reasons for not seeking re-election. The various "other" reasons given for why prior big city mayors left office included being appointed to federal government positions and taking up a university teaching job.

APPENDIX A

National League Of Cities

A Survey of Mayor Profiles

This survey should be completed by the mayor with the assistance of the city clerk where necessary. We hope that you can take the time to complete this questionnaire and aid us in our research efforts.

Please use the postage paid envelope provided to return the enclosed survey no later than **April 15, 1987**. Return to Kathryn Shane McCarty, Office of Membership Services, National League of Cities, 1301 Pennsylvania Ave., N.W., Washington, D.C. 20004 -- (202) 626-3115. Thank you for your assistance.

NAME OF MAYOR: ______________________________

JURISDICTION AND STATE:

____

Q-1. Are mayors in your city chosen by direct election of the voters? (Circle number)

1. YES (Skip to Question 3.)
2. NO

Q-2. If you answered NO above, how were you chosen as the mayor?

1. Chosen by council members
2. Received highest number of votes in general election
3. Other (Please explain)

____

Q-3. Does the party affiliation of the mayor appear on the election ballot? (Circle number)

1. YES
2. NO

Q-4. Regardless of whether party affiliation appeared on the ballot, what party do you belong to? (Circle number)

1. Democrat
2. Republican
3. Other ______________________
4. None

Q-5. When were you last elected or appointed mayor of your city?

YEAR __________ MONTH ______________

Q-6. What percentage of the total vote did you win in your last election?

______________ Percent

Q-7. What percentage of the total vote did your closest opponent gain?

____________________ Percent

Q-8. Have you ever held elective government office before becoming mayor? (Circle number)

1. YES
2. NO (Skip to Question 10.)

Q-9. If you answered YES, please specify previous offices held, dates served and jurisdiction represented if different than present jurisdiction.

____

____

____

Q-10. What is your age?

__________________________ Years

Q-11. What is your highest level of educational qualifications? (Circle number)

1. Less than a high school diploma
2. High School Diploma or equivalent
3. Certificate from a Vocational Training Program
4. Some College
5. 2 year College Degree
6. 4 year College Degree
7. M.A. or equivalent
8. J.D. or equivalent
9. Ph.D. or equivalent
10. Other: ____

Q-12. What job did you hold immediately prior to your election?

____

Q-13. What was your occupation prior to becoming mayor?

____

Q-14. How many years have you lived in the city that you now represent as its mayor?

________________________ Years

Q-15. Please identify the annual salary range that you receive for serving as the mayor. (Circle number)

1. Under $10,000
2. $10,001 - $30,000
3. $30,001 - $50,000
4. $50,001 - $70,000
5. $70,001 - $90,000
6. $90,001 - $110,000
7. Over $110,000

PART II

The following questions pertain to the mayor(s) that served prior to your term of office. If you do not know the answers to these questions, please refer this portion of the questionnaire to the city clerk. Ask him/her to return it to us by APRIL 15, 1987. Thank you again for your assistance.

Q-16. What was the name of the mayor who served prior to your term?

____

Q 17. Regardless of whether party affiliation appeared on the ballot, what party did the previous mayor belong to? (Circle number)

1. Democrat
2. Republican
3. Other
4. None

Q-18. When did he/she leave office?

Year __________ Month ___________

Q-19. Why did he/she leave office? (Circle number)

1. Defeated in the primary election
2. Defeated in the general election
3. Legally prohibited from seeking reelection
4. Voluntarily retired
5. Died in office
6. Recalled from office
7. Other (Please specify)

____

Q-20. Has the previous mayor run for another elective office since his/her term as mayor expired? (Circle number)

1. YES
2. NO (Skip to Question 23.)

Q-21. If you answered YES above, please specify office sought.

____

Q-22. If you answered YES to Question 20, did this former mayor win the office being sought? (Circle number)

1. YES
2. NO

Q-23. What job did the previous mayor take immediately after leaving office? (Please be specific)

____

Q-24. Please list the mayors for each term since 1970 along with their party affiliation (regardless of whether it appeared on the ballot), the share of the vote won and name of the key mayoral opponent who received the second highest percentage of the vote.

TERM	NAME OF MAYOR	PARTY	% VOTE	NAME OF KEY OPPONENT
19__ - 19__				
19__- 19__				
19__ - 19__				
19__ - 19__				
19__ - 19__				
19__ - 19__				
19__ - 19__				
19__ - 19__				
19__ - 19__				
19__ - 19__				

* * * * * * * * * * * *

Name(s) of Respondent(s) ____________________________________

____

Title(s) ____

City _______________________ State _______________________

Phone ______________________ Date ________________________

Thank you again for your assistance in completing this questionnaire.

NATIONAL LEAGUE OF CITIES

APPENDIX B

MAYORS IN CITIES OVER 100,000
(as of October, 1987)

STATE	CITY	NAME	EX-DATE	POP.
NY	New York City	Edward I. Koch	12/31/89	7,071,030
IL	Chicago	Harold H. Washington	4/01/91	3,005,072
CA	Los Angeles	Tom Bradley	6/30/89	2,968,580
PA	Philadelphia	W. Wilson Goode	1/01/88	1,688,210
TX	Houston	Kathryn J. Whitmire	1/01/88	1,594,086
MI	Detroit	Coleman A. Young	12/31/89	1,203,370
TX	Dallas	Annette Strauss	5/06/89	904,599
CA	San Diego	Maureen O'Connor	12/05/88	875,504
MD	Baltimore	Clarence H. Burns	12/07/87	786,741
TX	San Antonio	Henry G. Cisneros	4/30/89	785,940
AZ	Phoenix	Terry Goddard	12/31/87	764,911
HI	Honolulu	Frank F. Fasi	1/02/89	762,874
IN	Indianapolis	William H. Hudnut, III	12/31/87	700,807
CA	San Francisco	Dianne Feinstein	1/08/89	678,974
TN	Memphis	Richard C. Hackett	12/31/87	646,174
DC	Washington	Marion S. Barry, Jr.	1/02/91	638,432
WI	Milwaukee	Henry W. Maier	4/13/88	636,297
CA	San Jose	Thomas McEnery	12/31/90	629,400
OH	Cleveland	George V. Voinovich	12/31/89	573,822
OH	Columbus	Dana G. Rinehart	12/31/87	565,032
MA	Boston	Raymond Flynn	1/01/88	562,994
LA	New Orleans	Sidney J. Barthelemy	4/30/90	557,927
FL	Jacksonville	Thomas Hazouri	6/30/91	540,898
WA	Seattle	Charles Royer	12/31/89	493,846
CO	Denver	Federico Pena	6/30/91	492,686
TN	Nashville	Bill Boner	8/31/91	455,651
MO	St. Louis	Vincent Schoemehl, Jr.	4/30/89	452,801
MO	Kansas City	Richard L. Berkley	4/01/91	448,028
TX	El Paso	Jonathon W. Rogers	5/14/89	425,259
GA	Atlanta	Andrew Young	1/04/90	425,022
PA	Pittsburgh	Richard S. Caliguiri	12/31/89	423,959
OK	Oklahoma City	Ronald J. Norick	4/14/91	404,014
OH	Cincinnati	Charles J. Luken	11/30/87	385,409
TX	Fort Worth	Bob Bolen	4/01/89	385,141
MN	Minneapolis	Donald M. Fraser	1/06/90	370,951
OR	Portland	J. E. Clark	12/31/88	368,148
CA	Long Beach	Ernie Kell	7/31/88	361,355
OK	Tulsa	Richard C. Crawford	5/01/88	360,919
NY	Buffalo	James D. Griffin	12/31/89	357,870
OH	Toledo	Donna Owens	11/30/87	354,635
FL	Miami	Xavier L. Suarez	11/30/87	346,931
TX	Austin	Frank Cooksey	5/15/88	345,890

NE	Omaha	Bernie Simon	6/01/89	342,795
CA	Oakland	Lionel J. Wilson	7/01/89	339,288
NM	Albuquerque	Ken Schultz	12/01/89	332,336
AZ	Tucson	Lewis C. Murphy	12/05/87	330,537
NJ	Newark	Sharpe James	1/01/90	329,248
NC	Charlotte	Harvey B. Gantt	12/07/87	315,474
KY	Louisville	Jerry E. Abramson	1/01/90	298,694
AL	Birmingham	Richard Arrington, Jr.	11/12/87	284,413
KS	Wichita	Robert G. Knight	4/14/88	279,835
CA	Sacramento	Anne Rudin	11/30/87	275,741
FL	Tampa	Sandra W. Freedman	3/31/91	271,577
MN	St. Paul	George Latimer	12/31/89	270,230
VA	Norfolk	Joseph A. Leafe	6/30/88	266,979
VA	Virginia Beach	Robert G. Jones	6/30/88	262,199
NY	Rochester	Thomas P. Ryan, Jr.	12/31/89	241,741
OH	Akron	Donald Plusquellic	12/31/87	237,177
FL	St. Petersburg	Robert L. Ulrich	4/01/89	236,893
TX	Corpus Christi	Betty Turner	4/30/89	232,134
NJ	Jersey City	Anthony R. Cucci	6/01/89	223,532
CA	Anaheim	Ben Bay	11/30/88	219,494
LA	Baton Rouge	Pat Screen	12/31/88	219,486
VA	Richmond	Roy A. West	6/30/88	219,214
CA	Fresno	Dale Doig	3/01/89	217,491
CO	Colorado Springs	Robert M. Isaac	4/21/91	215,105
LA	Shreveport	John B. Hussey	11/23/90	205,815
KY	Lexington	Scotty Baesler	12/31/89	204,165
CA	Santa Ana	Daniel H. Young	11/01/88	204,023
MS	Jackson	Dale Danks, Jr.	6/30/89	202,895
AL	Mobile	Arthur R. Outlaw	10/31/89	200,452
NY	Yonkers	Angelo R. Martinelli	12/31/87	195,351
OH	Dayton	Richard C. Dixon	1/04/88	193,536
IA	Des Moines	George Nahas	12/31/87	191,003
MI	Grand Rapids	Gerald R. Helmholdt	12/31/87	181,843
AL	Montgomery	Emory M. Folmar	11/01/87	178,157
TN	Knoxville	Kyle C. Testerman	12/31/87	175,045
TX	Lubbock	B. C. McMinn	4/30/88	173,979
AK	Anchorage	Tony Knowles	10/06/87	173,017
IN	Fort Wayne	Winfield Moses, Jr.	12/31/87	172,391
NE	Lincoln	Bill Harris	5/01/91	171,932
WA	Spokane	Vicki McNeill	12/31/89	171,300
WI	Madison	F. Joseph Sensenbrenner, Jr.	4/21/89	170,616
CA	Riverside	Albert C. Brown	11/30/89	170,591
CA	Huntington Beach	Jack Kelly	11/01/87	170,505
NY	Syracuse	Thomas Young	12/31/89	170,105
TN	Chattanooga	Gene Roberts	4/15/91	169,728
GA	Columbus	James E. Jernigan	1/01/91	169,441
NV	Las Vegas	Ron Lurie	6/05/89	164,674
UT	Salt Lake City	Palmer DePaulis	1/01/88	163,034
MA	Worcester	Timothy J. Cooney, Jr.	12/31/87	161,799
KS	Kansas City	Joseph E. Steineger, Jr.	4/07/91	161,148
MI	Warren	Ronald L. Bonkowski	11/30/87	161,134

TX	Arlington	Richard Greene	4/30/89	160,123
MI	Flint	James A. Sharp, Jr.	11/30/87	159,611
AR	Little Rock	Lottie Shackelford	12/31/88	158,915
CO	Aurora	Dennis Champine	11/03/87	158,588
WA	Tacoma	Doug Sutherland	12/31/89	158,501
RI	Providence	Joseph R. Paolino, Jr.	1/05/91	156,804
NC	Greensboro	John W. Forbis	12/01/87	155,642
FL	Fort Lauderdale	Robert O. Cox	3/15/88	153,256
VA	Arlington	Albert C. Eisenberg	12/31/87	152,599
AZ	Mesa	Al Brooks	6/06/88	152,453
MA	Springfield	Richard E. Neal	1/01/88	152,319
IN	Gary	Richard G. Hatcher	12/31/87	151,968
CA	Stockton	Barbara Fass	12/31/88	149,779
NC	Raleigh	Avery C. Upchurch	12/01/87	149,771
TX	Amarillo	Glen Parkey	4/30/89	149,230
FL	Hialeah	Raul L. Martinez	11/13/87	145,254
VA	Newport News	Jessie M. Rattley	6/30/88	144,903
CT	Bridgeport	Thomas W. Bucci	11/30/87	142,546
AL	Huntsville	Joe W. Davis	10/03/88	142,513
GA	Savannah	John P. Rousakis	10/01/90	141,654
IL	Rockford	John F. McNamara	4/24/89	139,712
CA	Glendale	Ginger Bremberg	4/10/88	139,060
TX	Garland	Bill Tomlinson	4/30/88	138,857
NJ	Paterson	Francis X. Graves	6/30/90	137,970
CT	Hartford	Thirman L. Milner	12/03/87	136,392
MO	Springfield	Tom Carlson	4/01/89	133,116
CA	Fremont	Gus Morrison	11/03/87	131,945
NC	Winston-Salem	Wayne A. Corpening	12/08/89	131,885
CA	Torrance	Katy Geissert	3/01/90	131,497
IN	Evansville	Michael Vandeveer	12/31/87	130,496
MI	Lansing	Terry McKane	1/01/90	130,414
FL	Orlando	Bill Frederick	10/31/88	128,394
CT	New Haven	Biagio DiLieto	12/31/87	126,089
IL	Peoria	James A. Maloof	5/01/89	124,160
CA	Garden Grove	Jonathan H. Cannon	11/30/88	123,351
VA	Hampton	James L. Eason	6/30/88	122,617
PA	Erie	Louis J. Tullio	1/01/90	119,123
CA	San Bernardino	Evlyn Wilcox	6/05/89	118,794
KS	Topeka	Douglas S. Wright	4/05/89	118,690
TX	Beaumont	Maurice Meyers	4/01/88	118,102
CA	Pasadena	John C. Crowley	5/02/91	118,072
FL	Hollywood	Mara Giulianti	3/09/88	117,188
GA	Macon	George M. Israel, III	12/13/87	116,860
OH	Youngstown	Patrick Ungaro	12/31/87	115,511
VA	Chesapeake	Sidney M. Oman	6/30/88	114,226
CO	Lakewood	Linda L. Shaw	11/09/87	113,808
TX	Pasadena	John Ray Harrison	5/31/89	112,560
MO	Independence	Barbara J. Potts	4/14/90	111,797
IA	Cedar Rapids	Donald J. Canney	12/31/87	110,243
TX	Irving	Robert J. Pierce	5/01/89	109,943
IN	South Bend	Roger O. Parent	1/01/88	109,727

MI	Sterling Heights	Jean DiRezze-Gush	11/03/87	108,999
CA	Oxnard	Nao Takasugi	11/30/88	108,195
MI	Ann Arbor	Gerald Jernigan	4/10/89	107,969
CA	Modesto	Peggy Mensinger	11/05/87	106,963
AZ	Tempe	Harry E. Mitchell	7/13/88	106,919
CA	Sunnyvale	Ron Gonzales	11/01/87	106,618
NJ	Elizabeth	Thomas G. Dunn	12/31/88	106,201
OR	Eugene	Brian B. Obie	1/03/89	105,664
CA	Bakersfield	Thomas A. Payne	11/01/87	105,611
MI	Livonia	Robert E. McCann	12/31/87	104,814
VA	Portsmouth	James W. Holley, III	6/30/88	104,577
CA	Concord	Ronald K. Mullin	11/01/87	103,763
PA	Allentown	Joseph S. Daddona	1/01/90	103,758
CA	Berkeley	Loni Hancock	11/30/90	103,328
CT	Waterbury	Joseph J. Santopietro	12/31/87	103,266
IA	Davenport	Thomas Hart	12/31/87	103,264
VA	Alexandria	James P. Moran, Jr.	5/30/88	103,217
CT	Stamford	Thom Serrani	11/30/87	102,466
ID	Boise	Dirk Kempthorne	1/01/90	102,451
CA	Fullerton	Richard C. Ackerman	11/22/88	102,246
NY	Albany	Thomas M. Whalen, III	12/31/89	101,727
CO	Pueblo	Michael Occhiato	12/31/87	101,686
TX	Waco	David Sibley	2/01/88	101,261
SC	Columbia	T. Patton Adams	6/30/90	101,229
NV	Reno	Pete Sferrazza	6/08/91	100,756
NC	Durham	Wilbur P. Gulley	11/01/87	100,538
VA	Roanoke	Noel C. Taylor	6/30/88	100,427
IL	Springfield	J. Michael Houston	4/21/91	100,054

TOTAL CITIES = 172

APPENDIX C

CITIES THAT RESPONDED TO THE NLC SURVEY

ALABAMA

Birmingham
Huntsville
Mobile

ALASKA

Anchorage

ARIZONA

Mesa
Tempe
Tucson

ARKANSAS

Little Rock

CALIFORNIA

Bakersfield
Berkeley
Concord
Fremont
Fullerton
Garden Grove
Huntington Beach
Long Beach
Los Angeles
Modesto
Oakland
Oxnard
Pasadena
Riverside
Sacramento
San Bernardino
San Diego
San Jose
Santa Ana
Stockton
Sunnyvale
Torrance

COLORADO

Aurora
Colorado Springs
Denver
Lakewood
Pueblo

CONNECTICUT

Bridgeport
Hartford
Waterbury

DISTRICT OF COLUMBIA

Washington

FLORIDA

Fort Lauderdale
Hialeah
Hollywood
Miami
Orlando
St. Petersburg
Tampa

GEORGIA

Columbus
Macon
Savannah

IDAHO

Boise

ILLINOIS

Chicago
Peoria
Rockford
Springfield

INDIANA

Evansville
Fort Wayne
Gary
Indianapolis
South Bend

IOWA

Cedar Rapids
Davenport

KANSAS

Kansas City
Topeka

KENTUCKY

Lexington-Fayette
Louisville

LOUISIANA

Baton Rouge
New Orleans
Shreveport

MARYLAND

Baltimore

MASSACHUSETTS

Boston
Springfield
Worcester

MICHIGAN

Flint
Grand Rapids
Lansing
Warren

MINNESOTA

Minneapolis
St. Paul

MISSISSIPPI

Jackson

MISSOURI

Independence
Kansas City
St. Louis
Springfield

NEBRASKA

Omaha

NEVADA

Reno

NEW JERSEY

Newark
Paterson

NEW MEXICO

Albuquerque

NEW YORK

Albany
Buffalo
New York
Rochester
Syracuse
Yonkers

NORTH CAROLINA

- Charlotte
- Durham
- Greensboro
- Raleigh
- Winston-Salem

OHIO

- Akron
- Cincinnati
- Cleveland
- Columbus
- Dayton
- Toledo
- Youngstown

OKLAHOMA

- Oklahoma City
- Tulsa

OREGON

- Eugene
- Portland

PENNSYLVANIA

- Allentown
- Erie
- Philadelphia
- Pittsburgh

RHODE ISLAND

- Providence

SOUTH CAROLINA

- Columbia

TENNESSEE

- Chattanooga
- Knoxville
- Nashville-Davidson

TEXAS

- Amarillo
- Arlington
- Austin
- Corpus Christi
- Dallas
- El Paso
- Garland
- Laredo
- Lubbock
- Pasadena

UTAH

- Salt Lake City

VIRGINIA

- Cheasapeake
- Hampton
- Newport News
- Norfolk
- Roanoke
- Virginia Beach

WASHINGTON

- Seattle
- Spokane
- Tacoma

WISCONSIN

- Milwaukee

PUERTO RICO

- Caguas
- Carolina
- Ponce

About The National League of Cities

The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and more than 1,300 cities directly and, through the membership of the state municipal leagues, more than 16,000 cities indirectly.

NLC serves as an advocate for its members in Washington in the legislative, administrative, and judicial processes that affect them; develops and pursues a national urban policy that meets the present and future needs of our nation's cities and the people who live in them; offers training, technical assistance and information to municipal officials to help them improve the quality of local government in our urban nation; and undertakes research and analysis on topics and issues of importance to the nation's cities.

NATIONAL LEAGUE OF CITIES
1301 Pennsylvania Avenue NW
Washington, D.C. 20004
(202) 626-3000

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Research Report on America's Cities

TOOLS AND TARGETS

The Mechanics of City Economic Development

One of a series of Research Reports on major empirical studies of conditions and policies in America's municipalities.

NATIONAL LEAGUE OF CITIES

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- City Fiscal Conditions in 1986
- Women in Municipal Government, 1986
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TOOLS AND TARGETS

The Mechanics Of City Economic Development

By

Ann O'M. Bowman
Lincoln Government Fellow
National League of Cities

October 1987

A Research Report
of the National League of Cities

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PREFACE

Tools and Targets is one of two major NLC reports that result from the research on local economic development done by Dr. Ann O'M. Bowman during her tenure as NLC's Lincoln Government Fellow for the academic year 1986-87. The other is The Visible Hand which includes analyses of survey findings that illuminate crucial topics such as definitions, intergovernmental roles, local institutional structures, and measures of success in economic development.

These two volumes make unique, substantive, and substantial contributions to the available knowledge and understanding regarding city economic development. We believe these studies will be of interest and use to city officials and to others concerned with this topic. We commend Dr. Bowman's efforts and her achievement.

The Lincoln Government Fellowship is co-sponsored by NLC and the Lincoln Institute of Land Policy in Cambridge, Massachusetts. We are proud of and pleased with this collaboration and we appreciate the Lincoln Institute's continuing support. Dr. Bowman of the University of South Carolina was the third Lincoln Fellow. Previous fellows were Dr. Robert Jay Dilger, University of Redlands, whose research focused on the effects of Federal tax policy on cities and Dr. Michael A. Pagano, Miami University (Ohio), who conducted studies on several aspects of capital finance. The fourth Lincoln Fellow, Dr. Arthur T. Johnson of the University of Maryland-Baltimore County, is now undertaking research on land use and land policy.

The Fellowship is an integral part of NLC's research activities. NLC publishes empirical studies of conditions and policies in America's municipalities and a Policy Working Paper series that includes works that analyze issues of importance to the nation's cities and towns. We aim to provide dependable information and stimulating ideas that will increase understanding of, and engender interest in, municipal affairs and city issues within America's federal system. Dr. Bowman's work fulfills these aims admirably.

We join Dr. Bowman in acknowledging and thanking the city officials, scholars, and NLC staff who contributed to the development of Tools and Targets. We are very pleased to offer this report and its companion volume to NLC's member cities and state leagues, the policy community, and the public.

Alan Beals
Executive Director

William E. Davis, III
Director, Office of Policy
Analysis and Development

ACKNOWLEDGMENTS

A report like this one owes debts of gratitude far and wide.

First of all, sincere appreciation is due the survey respondents who graciously and conscientiously completed the questionnaire from which this report is derived. The questionnaire was a multi-page instrument that, contrary to survey research guidelines, required a great degree of tenacity and commitment to complete. Seventy-five percent of the economic development professionals who received the questionnaire completed it. Many sent along additional information about their cities. This level of support for a research endeavor is unusual and is gratefully acknowledged.

The design of the research and the interpretation of the findings were aided by the insightful comments offered by participants in a series of roundtable discussions. These participants included: Edward Bergman, Thomas Black, Michael Brodd, Bill Claggett, Anthony DeVito, Scott Fosler, Howard Gudell, Bill Hamilton, Arthur Johnson, Hugh Knox, Larry Ledebur, Blaine Liner, Marilyn Swartz Lloyd, Harold Lucas, Bill Lysaught, Michael McCain, Susan Mueller, Michael Pagano, Todd Swanstrom, and Ned Zimmerman.

Further molding and improvement of the project came at the hands of the very knowledgeable National League of Cities staff. The suggestions of Virginia Mayer and Matt Kane, NLC's economic development specialists, and Bill McCarthy and Doug Peterson from NLC's policy office, were especially helpful. Research assistance for the project was ably provided by Stephen Morris. The largest single debt of gratitude is owed Bill Barnes who had the task of transforming an interesting idea into a policy-relevant research project. His contribution to this report is immeasurable.

The comments and editorial advice from Ed Meyers and Bill Claggett on an earlier draft of this report considerably improved the final product.

The Lincoln Institute of Land Policy sponsors the Lincoln Government Fellow at the National League of Cities and provided financial support for the roundtable discussions.

The encouragement and support of the executive director of the Lincoln Institute, Ronald L. Smith, were very important to the project.

Ann O'M. Bowman
Lincoln Government Fellow
National League of Cities

TOOLS AND TARGETS

The Mechanics of City Economic Development

by

Ann O'M. Bowman

Lincoln Government Fellow
National League of Cities

October 1987

EXECUTIVE SUMMARY

American city governments are engaged in a variety of efforts to maintain and enhance local economic health. This report explores those efforts by focusing on two questions: what are cities doing, and how are they doing it?

This report is derived from an NLC survey of 322 American cities, large and small, with different economic structures and levels of distress, nation-wide. The survey explored city government involvement in the local economy. This report focuses on the tools and targets that cities use to influence their local economies. The key findings appear below.

1. The two tools most important to a city's economic development effort are infrastructure improvements and the issuance of tax-exempt bonds for private development. The message is unassailable. These tools are the most popular: 85% of the cities have used infrastructure improvements; 78% have used tax-exempt bonds for private development. They are the most relied upon tools: 48% of the cities report using infrastructure improvements extensively in 1986; 34% report using tax-exempt bonds extensively. And finally, when their use is linked to the achievement of specific economic development objectives, these two tools come out at the top.

2. Other tools that have been used by a majority of cities in the past include tools related to land development such as land condemnation (56%), acquisition (69%) and clearance (61%), relocation of residents and businesses from redevelopment areas (61%), and sale of land to developers (69%). In addition, a majority of cities have used historic preservation designation (60%), local survey of business needs (56%), advertising (54%), marketing strategy (54%), and employee training/retraining (53%).

A. The survey revealed a correlation between city size and the use of economic development tools and targets. The larger the city, the more likely it is to use economic development tools extensively.

B. The survey revealed significant regional differences in the use of economic development tools. Cities located in the Mid-Atlantic region, for example, use tools more extensively than cities in the Mountain and Pacific areas. Regions also vary in the package of economic development tools they assemble.

C. Distress level correlates closely to tool use. Generally, the higher the level of distress in a city (as measured by the UDAG indicator), the more likely the city will use economic development tools extensively. Consider the case of tax abatement. Over 37% of the cities in the high distress category and no cities in the low distress category used tax abatement extensively in 1986.

3. The survey reveals an impending revolution in the economic development tools that will be used by cities. Eleven economic development tools are predicted to see a substantial increase in use. These include; taxable bonds, venture capital, revolving loan funds, foreign trade zones, lease of land to developers, one stop business permitting centers, procurement assistance, entrepreneurial assistance, strategic planning, marketing strategy, and export assistance.

4. A majority of cities find six targets "very important" to their economic development efforts. The six targets and their "very important" percentages are: downtown redevelopment (76%), attracting new business (70%), retaining existing business (67%), expanding existing business (66%), industrial areas (54%), and small business development (51%).

A. Target selection largely depends on city size. Larger cities tend to identify more "very important" targets than small cities. In addition to the popular targets (noted above) large cities have paid particular attention to minority business development and neighborhood centers as economic development targets.

B. Target selection tends to vary by regions. For some targets such as research and development occupations, the regional difference in importance is minimal. For others, e.g., minority business development, the range is substantial. Individual regions place varying emphasis on particular targets. For example, compared to other regions, the Mid-Atlantic cities place more emphasis on office buildings, the East South Central cities emphasize the attraction of new business, the South Atlantic focuses on central administrative occupations.

C. A city's distress level influences the number of targets and the type of targets that are selected. High distress cities designate many more targets as "very important" than low distress cities. High distress cities tend to target two objectives that are virtually absent from the agenda of low distress cities, minority business development and community development corporations.

D. Economic structure is not as clearly related to targeting as are other city characteristics. Cities with an economic base concentrated on services or manufacturing tend toward economic development targeting more than retail-based cities. While the selection of particular targets does not differ as much as might be expected, interesting variations arise such as the emphasis that manufacturing cities place on diversification of the business mix.

5. The tools most important to the achievement of specific economic development targets, besides infrastructure improvements and tax-exempt bonds are revolving loan funds, marketing strategy, tax abatement, direct loans to private business, and entrepreneurial assistance.

There was an era when city government considered the local economy to be the province of the private sector. That era is history. City governments are very involved in promoting local economic development. They identify targets and use an array of tools. The impact of this activity is addressed in a companion volume to this report.

CHAPTER I

INTRODUCTION

A healthy local economy is an indisputable community asset. While city governments have always been interested in the maintenance and enhancement of their local economies, that interest has been converted into action in the 1980s. Contemporary city governments have become increasingly more "proactive" or "interventionist" with regard to their local economies.

The actions of city governments range from efforts to create an environment for growth (e.g., infrastructure improvements) to programs that involve city government in a direct relationship with private sector entities (e.g., venture capital funds). These actions are often called "tools," and their objectives are called "targets."

This report is a study of the tools and targets of city economic development. It was undertaken to fill a well-documented and widely-lamented information gap regarding the specifics of local economic development policy: what are cities doing, and what do they hope to accomplish?

The data in this report emanate from a survey conducted by the National League of Cities in 1987. (A description of the research process and a list of the participating cities appears in the appendices.) Economic development professionals in 322 American cities responded to the survey. These professionals have different titles in different cities but, on average, tend to be directors of city economic development departments. They are, without question, those top level managers most intimately involved in the city's economic development effort.

The portion of the survey presented in this report asked the respondents for objective information regarding their city's economic development effort. City officials and managers were instructed to indicate whether specific tools had been used in the past, the degree to which they were used in 1986, and whether they are likely to be used in the future. In addition, they were asked to assess the importance of different types of economic development targets. In doing so, these knowledgable respondents were speaking for their respective cities. The result is a detailed description of the mechanics of city economic development policy.

Chapter II establishes the usage patterns of economic development tools. It reports on the use of 45 different economic development tools over time. The tools are grouped into three clusters according to intent: cost reduction, capacity improvement, and market expansion. The data reflect the percentage of cities that have used tools in the past (a tool popularity measure), the degree to which they were used in 1986 (a tool reliance measure), and the likelihood that they will be used in the future.

In Chapter III, the 1986 usage patterns are categorized by four important city characteristics: population size, region, level of distress, and economic structure. This breakdown allows the comparison of large and small cities, cities in different parts of the country, cities with various levels of distress, and cities with different economic bases. Close examination reveals, a substantial variation in the amount and types of tools used.

Chapter IV examines the targets of city economic development. Nineteen targets in four categories--geographical, entrepreneurial, business, and occupational--are evaluated to determine their importance to city economic development. Importance is gauged on a five-item scale ranging from "not important" to "very important," and, the three most important tools associated with the "very important" targets are discussed.

In Chapter V, the targets are categorized by the same four city characteristics: population size, region, level of distress, and economic structure. This breakdown reveals an understanding of the relative emphases of economic development programs in cities of different size, location, distress, and economy. As with tool use, the targeting of specific objectives varies by city type.

Chapter VI offers a synthesis of sorts. It returns to the data of the earlier chapters and explores city type and tool use, but from the perspective of six important tools. The chapter also addresses the relationship between two different measures of tool use--the reliance measure and the purposive measure.

There are no magic formulae, no quick fixes in local economic development. Cities are experimenting with a variety of tools aimed at a range of targets. Armed with an understanding of how other cities approach the topic, city policymakers will be better equipped to anticipate and respond to the challenges of the 1990s.

CHAPTER II

PATTERNS OF TOOL USE

Cities have an array of economic development tools at their disposal. The tools are different in approach and impact. These tools can be called "programs" or "activities"; they have even been called "policy instruments." Regardless of nomenclature, the tools are the means by which city governments influence the local economy and enhance the city's developmental potential.

Some of the tools are intended to encourage investment by lowering costs for developers and business through a public subsidy. These financial tools typically involve the city in a direct relationship with a developer or business and are labeled cost reduction tools. Another cluster of tools is aimed at streamlining the development process. The city government takes a more active role by harnessing its regulatory powers to improve its own capacity and that of local firms. By reducing inefficient governmental disincentives to development, the city is engaging in capacity improvement. A third group of tools allows the city to enlarge demand by strengthening the market for the locality and for local firms. That is, the city tries to make the locality and local firms more attractive and visible. These are considered market expansion tools.

This categorization is not hard and fast. Many of the tools are multipurpose and defy strict classification. The categories, however, are fairly inclusive of the general policy options available to cities. Irrespective of their specific intent, the tools produce indirect effects such as contributing to the on-going process of city image building. In other words, the tools serve a powerful attitude readjustment role. They can affect the impression that both citizens and outsiders have of the community.

To explore usage patterns in the cities, the survey provided a comprehensive listing of 45 local economic development tools. Respondents were asked to indicate: (1) whether their city had used the tool in the past, (2) whether their city had used the tool "extensively" or "occasionally" during the previous year (1986), and (3) whether their city was likely to use the tool in the future. The data in Table II-1 display the percentage of the responding cities using a particular tool. In the remainder of the chapter, the tool use data from Table II-1 will be analyzed. In each of the sections--past, 1986, and future--a

TABLE II-1 PERCENTAGE OF CITIES USING ECONOMIC DEVELOPMENT TOOLS

TOOLS	USED IN THE PAST	AMOUNT OF USAGE IN 1986		LIKELY TO USE IN THE FUTURE
		EXTENSIVE	OCCASIONAL	
COST REDUCTION				
Deferred Tax Payments	11.2	2.2	8.1	13.7
Direct Cash Contribution to Project	39.4	7.5	30.7	36.6
Direct Loans to Private Business	47.2	16.5	28.3	48.4
Donation of Land to Developers	14.9	0.9	11.2	19.6
Donations of Unused Real Property	28.9	4.3	19.6	29.8
Foreign Trade Zones	19.9	5.0	15.2	37.6
Historic Preservation Designation	59.9	20.8	33.9	63.7
In-Kind Payment	27.3	4.7	18.6	27.3
Issuance of Tax-Exempt Bonds For Private Development	78.3	34.2	36.3	57.8
Land Write-Downs	45.3	10.2	23.0	44.7
Loan Guarantees	30.5	5.6	22.4	32.6
Loan Subsidies	39.8	12.1	22.4	38.5
Revolving Loan Funds	49.1	26.4	21.4	62.1
Sale-Lease Back	16.5	1.9	9.6	24.2
Shared Equity	18.9	2.5	11.8	27.6
Syndication	12.4	4.0	4.7	13.7
Tax Abatement	39.4	12.7	27.0	44.4
Taxable Bonds	13.0	3.4	9.6	37.9
Venture Capital	7.8	1.2	8.7	26.4
CAPACITY IMPROVEMENT				
Assignment of Air Rights	21.4	1.6	14.9	28.0
Building Construction/Renovation	38.8	15.8	20.2	42.9
Daycare Assistance	8.7	3.7	5.9	16.8
Development Fees (linkage)	17.4	5.0	13.4	27.0
Employee Training/Retraining	53.4	26.4	25.5	55.6
Entrepreneurial Assistance	37.3	16.5	26.4	51.9
Infrastructure Improvements	85.4	47.5	32.3	83.5
Land Acquisition	68.6	23.0	36.3	69.3
Land Clearance	60.6	20.5	30.4	57.8
Land Condemnation	56.5	14.0	30.1	56.2
Leasing of Land to Developers	31.7	6.8	21.7	46.3
Local Survey of Business Needs	56.2	19.3	30.4	66.1
Lot Consolidation	42.2	13.0	23.3	43.2
One Stop Business Center (permitting)	33.2	23.9	9.9	55.3
Procurement Assistance	20.2	6.5	17.7	30.7
Relaxation of Building or Zoning Regs.	22.7	2.5	18.3	24.2
Relaxation of Environmental Regs.	2.5	0.3	3.1	4.3
Relocation of Residents & Business from Redev. Areas	60.6	17.1	28.9	55.3
Sale of Land to Developers	69.3	22.4	36.0	72.0
Special Purpose Zoning	37.6	6.5	26.1	45.3
Strategic Planning	45.7	27.0	23.3	62.8
MARKET EXPANSION				
Advertising	54.0	21.7	36.0	62.4
Export Assistance	14.0	4.3	10.2	26.1
Marketing Strategy	53.7	29.5	28.6	68.9
Promotional Missions (domestic)	42.5	13.4	28.6	50.3
Trade Missions Abroad	25.5	4.0	20.2	32.0

discussion of the general patterns is followed by consideration of the cost reduction,capacity improvement, and market expansion categories.

(1) Tool Use in the Past

The two most popular economic development tools are infrastructure improvements (85.4% of the cities report using them) and the issuance of tax-exempt bonds for private development (78.3%). Infrastructure is a basic foundation imperative to economic development. In the contemporary period, infrastructure is typically considered a public good provided by the public sector. Tax-exempt bonds, especially industrial development bonds, have proven an important gap financing mechanism for municipalities. Together, these two tools have formed the heart of the local economic development effort.

Five related capacity improvement tools have also been popular. Cities have been engaged in condemning land (56.5%), acquiring land (68.6%), relocating residents and business from redevelopment areas (60.6%), clearing land (60.6%), and selling land to developers (69.3%). During the post-war era, these activities became the conventional means for public sector intervention in land (re)development.

Other tools used by a majority of cities in the past include: historic preservation (59.9%), local survey of business needs (56.2%), advertising (54.0%), marketing strategy (53.7%) and employee training/retraining (53.4%). The diverse nature of these tools indicates that the promotion of economic development takes many different forms.

Generally, cities have not used the relaxation of environmental regulations (2.5%), venture capital (7.8%), and/or daycare assistance (8.7%) as tools to promote local economic development.

Cost Reduction Tools

As a group, cities have been fairly selective in their use of the cost reduction tools. Beyond the use of the popular tax-exempt bonds and historic preservation designations, a high proportion of cities have relied upon more project-specific tools: revolving loan funds (49.1%), direct loans to private business (47.2%), and land write-downs (45.3%). Over one-third of the cities report having used loan subsidies, tax abatement, and direct cash contributions to projects to promote local economic development. More than one-quarter of the cities have tried to spur development by using loan guarantees, donations of unused real property, and in-kind payments.

One large cluster of cost reduction tools has been clearly less popular with cities to date. This cluster includes foreign trade zones (19.9%), shared equity (18.9%), sale-lease back (16.5%), donation of land to developers (14.9%), taxable bonds (13.0%), syndication (12.4%), deferred tax payments (11.2%), and venture capital funds (7.8%).

Capacity Improvement Tools

As previously noted, infrastructure improvements and a package of conventional land development tools (acquisition, clearance, sale of land, and relocation of residents and businesses) have been the most widely-embraced capacity improvement tools. Other popular land development activities such as land condemnation and lot consolidation have been used by 56.5% and 42.2% of the cities, respectively. Less widely used are city-sponsored building construction and renovation (38.8%), leasing of land to developers (31.7%), and assignment of air rights (21.4%).

Fewer than half of the cities have used the regulatory process itself in an effort to influence local economic development. Special purpose zoning has been used by 37.6% of the cities and relaxation of building or zoning regulations has occurred in 22.7%. Relaxation of environmental regulations is an unpopular endeavor; only 2.5% report having done so in the past.

Many cities have redoubled their efforts to understand and assist the local business community. A heightened awareness of business needs (attained by over half the cities through business needs surveys) and a more thorough understanding of community goals (as a result of the strategic planning undertaken by nearly half the cities) have vastly enhanced capapcity improvement. Business assistance, in the form of employee training/retraining has been fairly popular (53.4%) but entrepreneurial assistance (37.3%), one stop business centers (33.2%), and procurement assistance (20.2%) lag behind. Very few cities (8.7%) have used daycare assistance as an economic development tool.

Development fees, that is, tying development to the achievement of other, often social, goals of the city, has been used only occasionally in the past (17.4%).

Market Expansion Tools

A majority of cities has engaged in advertising (54.0%) and has developed a marketing strategy (53.7%) to promote the city as a place for investment. A substantial number have taken the next step and conducted domestic promotional missions (42.5%). Cities are less likely to venture into the international realm, however. Roughly one quarter of the cities indicate that they have conducted trade missions abroad, and only 14.0% report that they have provided export assistance. Market expansion tends to be regarded in terms of domestic markets alone.

(2) Tool Use in 1986

The historical tool usage patterns discussed in the preceding section provide an indication of how cities have approached local economic development policy. These data are comparative and allow us to determine how popular the various tools have been. However, the data do not provide an assessment of the degree to which an individual tool is being used. In other words, the past usage figures do not offer any insight into the relative reliance on specific tools--whether a tool is used extensively or occasionally. To gauge reliance, the two columns of figures under the heading "Amount of Usage in 1986" in Table II-1 should be consulted. These figures indicate, for a single year, the relative importance of the tools. "Extensive" implies a frequent or routine use of a tool; "occasional" denotes more sporadic, nonroutine usage. Interpreting the data from any one year should be done cautiously given the multiyear time-frame of many economic development projects.

Three summary observations are evident from the 1986 usage figures. First, it appears that cities are more likely to be occasional users than extensive users of whatever tools they employ. Only in very few instances are the percentages in the "extensive" use column greater than the percentages in the corresponding "occasional" use column. This suggests that the historical usage patterns reported in the previous sections reflect sporadic activity rather than sustained activity.

Second, very few of the tools are used extensively. For example, only two tools (infrastructure improvements and tax-exempt bonds) were used extensively in 1986 by more than one-third of the cities. In other words, if one traveled across the urban landscape in 1986, one would have infrequently encountered the same tools routinely used in different places.

Third, compared to the column of figures for past use, a slightly different set of important tools emerges in 1986. While infrastructure improvements and tax-exempt bonds continue to prevail, the overall use of land development tools recedes somewhat and is replaced by an assortment of other tools including marketing strategy, strategic planning, employee training/retraining, and revolving loan funds. This suggests that 1986 may have been part of a new wave in the use of economic development tools. The year 1986 had a slightly different flavor from the past.

Examining the usage rates for a single year in conjunction with the past use figures offers a fuller understanding of what cities are doing. For example, approximately one-fifth of the cities indicated that they had used the assignment of air rights as an economic development tool in the past. The figures for 1986 indicate that this activity is typically confined to a limited number of projects in a city. Less than 2% of the cities used the assignment of air rights extensively. The same is true for trade missions abroad. Over 25% of the cities reported international trade missions in the past; however, based on the 1986 figures, only 4.0% report that these missions are an integral part of their economic development strategy.

Cost Reduction Tools

In 1986, the cost reduction tools most frequently and extensively used included tax-exempt bonds, revolving loan funds, and historic preservation designations. These activities were more likely to characterize a city's approach than any others.

Looking beyond extensiveness to occasional use, however, reveals some interesting variation. During the year, cities, on occasion, did provide two important forms of financial support to development. For example, 30.7% report making direct cash contributions to projects occasionally (and 7.5% extensively) and 28.3% report making direct loans to private business occasionally (and 16.5% extensively). Other tools that lower the cost of doing business, albeit more indirectly, (tax abatement, land write-downs, and loan subsidies), were important to cities during 1986. In a given year, the use of cost reduction tools appears to be more selective than the past use data may have conveyed.

Capacity Improvement Tools

Infrastructure improvement is the tool that dominated the capacity improvement picture in cities in 1986. Infrastructure improvement occurred extensively in almost one-half of the cities, and occasionally in another one-third. No other capacity improvement tools experienced a similar degree of usage. And only three tools of this type demonstrated, as did infrastructure, more extensive than occasional use: the establishment of one stop business permitting centers, strategic planning, and employee training/retraining. Approximately one-fourth of the cities report using these tools extensively.

The land development tools popular in the past remain popular, but their degree of use is, actually, somewhat limited. Basic land development tools such as condemnation, acquisition, clearance, and sale were used by roughly half of the cities in 1986 but their use tended to occasional rather than extensive. The same is true for the local survey of business needs. The tendency toward occasional rather than extensive use is even stronger for tools with lower overall usage rates, e.g., the relaxation of building or zoning regulations and the use of special purpose zoning.

Market Expansion Tools

Examining the use of market expansion tools in 1986 reveals a pattern similar to that found in the other categories. With marketing strategy as the sole exception, cities did not use the market expansion tools in a sustained manner. This infrequent usage may reflect the naure of market expansion tools as "once a year" endeavors. The emergence of marketing strategy as an important tool (29.5% used it extensively) is evident when it is compared to advertising (21.7% used it extensively), traditionally considered the predominant market expansion activity. Comprehensive marketing strategies may, in fact, include some of the other market expansion tools listed.) The continuing domestic orientation of city efforts to expand the market is apparent from the substantially lower usage rates for the two internationally-oriented tools.

(3) Tool Use in the Future

The data from the "likely to use in the future" column of Table II-1 make one conclusion crystal clear: cities plan to be much more involved in economic development activities. The changes over time and across categories of tools suggest that the evolution of local economic development may be tantamount to a revolution. More city governments will be more involved in local economic development.

Few of the 45 tools will experience lower (than in the past) usage rates. In these cases (in-kind payment, land write-downs, land condemnation, loan subsidies, infrastructure improvements, land clearance, direct cash contribution to project, and relocation of residents and businesses from redevelopment areas), the decline in the anticipated usage is negligible--less than six percentage points. (The importance of a one percentage point decline varies given the level of use.) Only in the issuance of tax-exempt bonds for private development (a difference of 20.5 percentage points) do the anticipated usage rates decline significantly. (Given the provisions of the 1986 Tax Reform Act, the only surprising aspect of the predicted downturn in the use of tax-exempt bonds is that the drop is not greater.)

The use of most tools is expected to increase. In some cases, the increase is substantial. If an increase of ten percentage points is deemed "substantial," then eleven of the tools--taxable bonds, venture capital, revolving loan funds, foreign trade zones, lease of land to developers, one stop business permitting centers, procurement assistance, entrepreneurial assistance, strategic planning, marketing strategy, and export assistance--will play a larger role in local economic development that they ever have before. Other tools will continue to be used by roughly the same proportion of cities. Widely used tools such as land acquisition will maintain their popularity. The tool least utilized in the past, relaxation of environmental regulations, will continue to be eschewed by cities.

Cost Reduction Tools

Given that the issuance of tax-exempt bonds will decrease, two other cost reduction tools will become more prominent: historic preservation designation and revolving loan funds. Changes in federal laws have reduced the tax advantages of historic preservation designations; therefore, their continued usage suggests a broader utility to the city than mere cost reduction. The surge in popularity of revolving loan funds is due not only to the continued federal support of this activity but to the increased state government presence as well. Cities increasingly consider revolving loan funds a viable means of assisting and guiding local economic development.

Other prominent components in the cost reduction arsenal of the future will include the venerable tax-exempt bonds, direct loans to private business, land write-downs, and tax abatement. Some tools infrequently utilized in the past--such as shared equity and venture capital--will be used by more cities while others--such as deferred tax payments and syndication--will remain infrequently used tools.

Capacity Improvement Tools

In the future, capacity improvement will proceed in two complementary directions. Cities will continue the traditional focus on infrastructure and land development. This suggests that there will be no erosion in the efforts of cities to guide economic growth. In addition, cities will be venturing along less traveled paths with a host of "business assistance" tools. These actions are often undertaken to create an environment in which new, small firms can flourish. Taken together, these directions portend a much closer relationship between the public and private sectors than has existed in the past.

The popularity of the capacity improvement tools will not diminish. Unlike the cost reduction tools, most of the capacity improvement tools will be used by nearly 40% of the cities. Even some of the most innovative tools like linkage and daycare assistance, will experience substantial increases in usage.

Market Expansion Tools

Use of the market expansion tools is on the rise. Over half of the cities will be advertising, developing marketing strategies, and going on domestic promotional missions. The awareness of the global possibilities for local economies is increasing as well. More cities will be conducting trade missions abroad and, perhaps as part of the more generalized trend toward business assistance, over one-fourth of the cities will be assisting local companies with export matters.

CHAPTER III

EXAMINING TOOL USE

The data on tool usage are important because cities tend to emulate the successes of others. City officials are interested in learning how other cities are addressing the economic development issue. To facilitate intercity comparisons, the data are apportioned in four ways: by city population size, region, level of distress, and local economic structure. This makes it easier for city officials to identify which tools are popular with cities like theirs and to gauge how their local efforts compare.

In discussing the ways that different types of cities use economic development tools, only the 1986 data will be presented. Compared to past and future use rates, the 1986 figures contain more information. Not only do the 1986 figures indicate the proportion of cities that used a specific tool (a popularity measure), unlike the past or future data they reveal the degree to which a specific tool was used (a reliance measure). Using just the 1986 figures makes for a much more economical presentation of the data. The resultant data loss is not severe because, as Table II-1 showed, the 1986 extensive and occasional usage patterns mirror, for the most part, past usage, and, because predicted future use is somewhat problematic, given a rapidly changing local economic development scene. The 1986 data are the preferable alternative.

Many factors affect the way a city designs its economic development program. A city's population size implies certain capacities and concerns regarding economic development. Its location suggests a particular orientation to the issue. Its level of distress conveys a pattern of needs and demands that influences policy choices. Its economic structure implies that some developmental strategies will be more compatible than others. Breaking the aggregate tool use patterns into clusters based on these four characteristics will illuminate the distinctions.

(1) City Population Size and Economic Development Tool Use

The cities in the sample have been separated into four groups according to their 1980 population size: small cities are those with populations of less than 50,000, small-mid cities have populations between 50,000 and 100,000, mid-large cities have populations between 100,000 and 200,000, and large cities are those with populations greater than

TABLE III-1 1986 TOOL USAGE BY CITY SIZE

	LARGE		MID-LARGE		SMALL-MID		SMALL	
TOOLS	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.
COST REDUCTION								
Deferred Tax Payments	3.3	8.2	0.0	13.5	4.2	5.0	0.0	6.1
Direct Cash Contribution to Project	11.5	41.0	8.1	32.4	7.6	28.6	3.0	24.2
Direct Loans to Private Business	31.1	39.3	20.3	31.1	10.1	26.9	12.1	19.7
Donation of Land to Developers	0.0	18.0	2.7	16.2	0.8	9.2	0.0	3.0
Donations of Unused Real Property	4.9	29.5	5.4	23.0	4.2	15.1	1.5	15.2
Foreign Trade Zones	11.5	45.9	9.5	10.8	0.8	6.7	1.5	7.6
Historic Preservation Designation	26.2	55.7	27.0	37.8	13.4	25.2	22.7	25.8
In-Kind Payment	4.9	24.6	4.1	29.7	5.9	10.1	3.0	13.6
Issuance of Tax-Exempt Bonds For Private Development	59.0	32.8	39.2	39.2	26.1	34.5	22.7	37.9
Land Write-Downs	19.7	29.5	8.1	33.8	10.9	20.2	3.0	10.6
Loan Guarantees	19.7	32.8	2.7	29.7	3.4	20.2	0.0	10.6
Loan Subsidies	23.0	36.1	16.2	20.3	9.2	22.7	3.0	9.1
Revolving Loan Funds	45.9	27.9	35.1	18.9	18.5	21.0	13.6	19.7
Sale-Lease Back	3.3	13.1	2.7	13.5	1.7	5.9	0.0	9.1
Shared Equity	3.3	26.2	2.7	16.2	3.4	5.9	0.0	4.5
Syndication	4.9	13.1	5.4	0.0	3.4	3.4	3.0	4.5
Tax Abatement	16.4	36.1	16.2	36.5	10.1	16.0	10.6	31.8
Taxable Bonds	6.6	16.4	2.7	10.8	3.4	5.9	1.5	9.1
Venture Capital	1.6	16.4	2.7	13.5	0.0	5.9	1.5	1.5
CAPACITY IMPROVEMENT								
Assignment of Air Rights	6.6	26.2	0.0	17.6	0.0	13.4	1.5	4.5
Building Construction/Renovation	19.7	32.8	18.9	14.9	16.0	16.8	9.1	19.7
Daycare Assistance	6.6	11.5	2.7	2.7	2.5	5.9	4.5	4.5
Development Fees (linkage)	4.9	14.8	5.4	9.5	5.9	16.8	1.5	10.6
Employee Training/Retraining	50.8	39.3	35.1	24.3	14.3	20.2	16.7	24.2
Entrepreneurial Assistance	24.6	36.1	17.6	36.5	11.8	18.5	16.7	21.2
Infrastructure Improvements	62.3	31.1	52.7	31.1	45.4	30.3	33.3	37.9
Land Acquisition	36.1	39.3	27.0	40.5	21.8	36.1	9.1	30.3
Land Clearance	32.8	42.6	27.0	36.5	17.6	26.9	6.1	19.7
Land Condemnation	24.6	39.3	20.3	36.5	10.9	29.4	3.0	16.7
Leasing of Land to Developers	19.7	27.9	5.4	27.0	3.4	21.8	13.0	10.6
Local Survey of Business Needs	31.1	34.4	20.3	29.7	14.3	29.4	16.7	28.8
Lot Consolidation	23.0	34.4	18.9	27.0	10.9	19.3	1.5	16.7
One Stop Business Center (permitting)	31.1	11.5	18.9	10.8	26.1	5.0	18.2	16.7
Procurement Assistance	18.0	31.1	6.8	18.9	3.4	11.8	1.5	13.6
Relaxation of Building or Zoning Regs.	1.6	23.0	2.7	21.6	2.5	15.1	3.0	16.7
Relaxation of Environmental Regs.	0.0	3.3	0.0	4.1	0.8	0.8	0.0	6.1
Relocation of Residents & Business from Redev. Areas	31.1	28.5	21.6	38.2	14.3	33.6	4.5	9.1
Sale of Land to Developers	34.4	37.7	32.4	43.2	15.1	34.5	13.6	30.3
Special Purpose Zoning	8.2	29.5	5.4	24.3	5.9	27.7	7.6	22.7
Strategic Planning	39.3	32.8	27.0	25.7	23.5	16.0	21.2	24.2
MARKET EXPANSION								
Advertising	32.8	39.3	27.0	37.8	15.1	33.6	18.2	36.4
Export Assistance	9.8	13.1	6.8	12.2	1.7	5.0	1.5	13.6
Marketing Strategy	42.6	37.7	35.1	29.7	18.5	26.9	31.8	22.7
Promotional Missions (domestic)	21.3	36.1	17.6	27.0	5.9	29.4	15.2	21.2
Trade Missions Abroad	11.5	55.7	1.4	21.6	2.5	6.7	3.0	10.6

200,000. Sixty nine small cities, 116 small-mid, 76 mid-large, and 61 large cities responded to the survey tool question. The higher number of small-mid cities among the respondents means that this size category is more dominant than any other in the aggregate analysis. The figures for 1986 tool usage, broken down by city size, appear in Table III-1.

The data in Table III-1 reveal one very important truth about the use of economic development tools: on the average, larger cities use more tools, more extensively than do smaller cities. The population size of a city is then, an important component of tool use.

This is most easily seen when the figures for large cities are compared to the figures for small cities. When the occasional and extensive use columns are combined to produce a single 1986 use figure, a higher proportion of large cities use all but one of the tools. The sole exception is a low use tool: the relaxation of environmental regulations. Other than this one instance, more large cities use the tools than do their small counterparts. This is clearly seen in the case of employee training/retraining. A total of 90.1% of the large cities were engaged in employee training in 1986. For small cities, the figure was 40.9%. Of course, the difference in usage rates is not this great in most instances. And, in a few cases, the gap is relatively narrow. Tax abatement demonstrates this quite handily. It is one of the tools used at approximately the same rate regardless of city size. While five out of ten large cities were using tax abatement in 1986, so were four out of ten small cities.

When the two groups of medium-sized cities are included in the analysis, the large-small distinctions become less clear-cut. Few of the tools exhibit the usage pattern shown by land condemnation or direct cash contribution where use percentage increases as city population size increases. The medium-sized cities have populations between that of the large and small cities but their use of economic development tools is not quite as predictable. For example, given the popularity of tax abatement in the rest of the cities, it is surprising to find that the small-mid-sized cities, comparatively, use it less. Daycare assistance is not among the widely-used economic development tools but it is used by more small cities than by either of the two medium-sized city categories. Therefore, although the difference between the large (greater than 200,000 population cities) and the small (less than 50,000 cities) is distinct, the usage patterns of the medium-sized cities are less predictable.

In the following sections, the 1986 economic development tool usage of each of the four city size groups is described.

Large Cities

As noted, large cities are the most active users of economic development tools. Only one tool has a 1986 usage rate (combining extensive and occasional) of less than 10% (relaxation of environmental regulations).

If a 40% extensive use rate is considered an indicator of widespread reliance, then five tools predominate among large cities: infrastructure improvements, tax-exempt bonds, employee training, revolving loan funds, and marketing strategy. These broad-ranged tools represent a mix of purposes and seem to define the economic development environment of America's large cities.

At a slightly lower level of usage are nine other tools extensively used by between 30% and 40% of the large cities. These tools are: strategic planning, land acquisition, sale of land to developers, land clearance, advertising, direct loans to private business, relocation of residents and businesses from redevelopment areas, one stop business permitting centers, and local survey of business needs. These are primarily capacity improvement tools.

It is the large cities that statistically influence the usage rates found in Table II-1 in the preceding chapter. Were large cities removed from the analysis, usage rates would decline rather dramatically. Foreign trade zones are a graphic example. Over fifty percent of the large cities report using them in 1986; the next highest use of foreign trade zones is in mid-large cities and the rate is 20.3%. The forceful role of the large cities is seen as well in the use of the relatively unpopular tools. Syndication is seldom used, but when it is, it is most likely done in a large city. The same is true for procurement assistance.

Mid-Large Cities

Mid-large cities use a similar collection of tools as do the large cities but, in many cases, at a substantially lower rate. Employing the 40% extensive use rate as a measure of reliance eliminates all but one tool, infrastructure improvements. It is the only tool consistently used by at least 40% of the mid-large cities. Only tax-exempt bonds, revolving loan funds, marketing strategy, land sales to developers, and job training are used extensively by as many as 30% of the cities. Thus, in the same extensive use range (30% or more), large cities are using fourteen different tools, mid-large cities are using six of them. So although the approach to economic development in mid-large cities involves a blend of cost reduction, capacity improvement, and market expansion, it is not as rich a blend as is found in large cities.

Small-Mid Cities

The overall decline in tool usage rates continues among the small-mid size cities. As with the mid-large cities, only infrastructure improvements occur at a 40% extensive use rate. There is an even greater drop-off, however, because no tools are used extensively in the 30% to 40% range. Only four tools, tax-exempt bonds, one stop business permitting centers, strategic planning, and land acquisition are used extensively by more than 20%.

There is, however, an interesting mix of tools used by these cities with populations of 50,000 to 100,000. Infrastructure, tax-exempt bonds, and land acquisition are relatively standard, but to include one stop business permitting centers and strategic planning among the five most popular tools is rather unusual. Not only is the economic development landscape less active, there is a different cast to the activity that does occur.

Small Cities

There is no economic development tool used extensively by 40% of the small cities. Two tools are extensively used by at least 30% of the small cities: infrastructure improvements and marketing strategy. Tax-exempt bonds, historic preservation, and strategic planning are the three tools that between 20% and 30% of the small cities use extensively. The preponderance of extensive usage rates is below 10%, indicating that small cities as a group do not place heavy reliance on any given tool or set of tools.

Small cities use some tools more than the small-mid size cities. For example, more small cities use historic preservation and entrepreneurial assistance than do the small-mid cities. On the whole, however, a limited level of activity characterizes the small cities, taken as a group.

(2) Region and Tool Use

The cities in the sample have been separated into Census regional divisions. New England includes Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut. The Mid-Atlantic includes New York, New Jersey, and Pennsylvania. The East North Central region is Ohio, Indiana, Illinois, Michigan, and Wisconsin. The West North Central includes Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, and Kansas. The South Atlantic includes Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, and Florida. The East South Central region is Kentucky, Tennessee, Alabama, and Mississippi. The West South Central includes Arkansas, Louisiana, Oklahoma, and Texas. Mountain includes Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, and Nevada. The Pacific region is Washington, Oregon, California, Alaska, and Hawaii.

Responding to the survey were: 22 New England cities, 22 Mid-Atlantic cities, 61 East North Central cities, 32 West North Central cities, 53 South Atlantic cities, 19 East South Central cities, 28 West South Central cities, 31 Mountain cities, and 54 Pacific cities. Three areas are slightly overrepresented among the respondents. The East North Central group makes up 19.1% of the respondents, the Pacific 16.9%, and the South Atlantic 16.1%. The three areas somewhat under-represented in terms of the sample are New England cities (6.9%), Mid-Atlantic cities (6.9%), and East South Central cities (5.9%).

The data presented in Table III-2 reflect the percentage of cities in these Census divisions reporting either extensive or occasional use of a tool in 1986.

TABLE III-2 1986 TOOL USAGE BY REGION

	NEW ENGLAND		MID ATLANTIC		EAST NORTH CENTRAL		WEST NORTH CENTRAL		SOUTH ATLANTIC		EAST SOUTH CENTRAL		WEST SOUTH CENTRAL		MOUNTAIN		PACIFIC	
TOOLS	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.
COST REDUCTION																		
Deferred Tax Payments	9.1	9.1	0.0	13.6	1.6	8.2	3.1	15.6	0.0	5.7	11.8	5.9	3.6	10.7	0.0	9.7	0.0	0.0
Direct Cash Contribution to Project	9.1	36.4	13.6	22.7	6.6	24.6	6.3	43.8	3.8	37.7	11.8	29.4	7.1	17.9	6.5	38.7	9.3	27.8
Direct Loans to Private Business	18.2	36.4	45.5	27.3	29.5	24.6	9.4	46.9	18.9	26.4	11.8	35.3	7.1	14.3	6.5	29.0	5.6	27.8
Donation of Land to Developers	4.5	9.1	0.0	18.2	1.6	9.8	3.1	21.9	0.0	13.2	0.0	11.8	0.0	7.1	0.0	6.5	0.0	7.4
Donations of Unused Real Property	0.0	18.2	9.1	36.4	1.6	29.5	3.1	18.8	3.8	17.0	11.8	23.5	3.6	14.3	6.5	25.8	3.7	3.7
Foreign Trade Zones	4.5	13.6	0.0	31.8	3.3	11.5	9.4	15.6	7.5	11.3	5.9	35.3	14.3	17.9	3.2	19.4	0.0	7.4
Historic Preservation Designation	27.3	27.3	50.0	36.4	16.4	34.4	18.8	40.6	20.8	35.8	52.9	23.5	17.9	46.4	12.9	38.7	9.3	24.1
In-Kind Payment	4.5	9.1	9.1	18.2	4.9	11.5	3.1	28.1	9.4	22.6	0.0	29.4	3.6	14.3	3.2	22.6	1.9	14.8
Issuance of Tax-Exempt Bonds	31.8	22.7	54.5	27.3	36.1	34.4	46.9	37.5	34.0	34.0	41.2	35.3	39.3	39.3	35.5	41.9	14.8	42.6
Land Write-Downs	22.7	9.1	18.2	36.4	8.2	21.3	15.6	40.6	3.8	18.9	0.0	17.6	0.0	10.7	3.2	25.8	20.4	25.9
Loan Guarantees	0.0	22.7	13.6	31.8	1.6	26.2	15.6	31.3	5.7	24.5	0.0	17.6	0.0	7.1	3.2	16.1	9.3	22.2
Loan Subsidies	9.1	22.7	22.7	27.3	14.8	18.0	18.8	31.3	17.0	17.0	11.8	11.8	7.1	7.1	3.2	22.6	5.6	33.3
Revolving Loan Funds	31.8	22.7	50.0	18.2	37.7	19.7	21.9	25.0	22.6	20.8	23.5	23.5	14.3	28.6	16.1	32.3	22.2	13.0
Sale-Lease Back	0.0	4.5	0.0	9.1	0.0	6.6	6.3	15.6	1.9	20.8	5.9	11.8	0.0	0.0	3.2	9.7	1.9	5.6
Shared Equity	4.5	9.1	4.5	31.8	1.6	8.2	3.1	15.6	3.8	13.2	0.0	23.5	3.6	7.1	0.0	3.2	1.9	9.3
Syndication	4.5	9.1	18.2	0.0	3.3	6.6	9.4	0.0	3.8	5.7	5.9	11.8	0.0	11.7	0.0	0.0	0.0	1.9
Tax Abatement	13.6	31.8	40.9	40.9	23.0	41.0	25.0	34.4	3.8	15.1	11.8	41.2	10.7	35.7	0.0	25.8	0.0	7.4
Taxable Bonds	0.0	13.6	13.6	13.6	1.6	8.2	12.5	28.1	1.9	7.5	5.9	17.6	0.0	7.1	0.0	0.0	1.9	3.7
Venture Capital	0.0	13.6	0.0	13.6	1.6	11.5	3.1	12.5	0.0	9.4	5.9	0.0	3.6	10.7	0.0	6.5	0.0	1.9
CAPACITY IMPROVEMENT																		
Assignment of Air Rights	0.0	9.1	0.0	13.6	3.3	14.8	3.1	21.9	0.0	20.8	0.0	11.8	3.6	21.4	0.0	9.7	1.9	9.3
Building Construction/Renovation	9.1	22.7	13.6	22.7	19.7	18.0	21.9	25.0	13.2	18.9	35.3	23.5	10.7	7.1	12.9	16.1	13.0	25.9
Daycare Assistance	4.5	4.5	9.1	4.5	3.3	4.9	3.1	9.4	3.8	5.7	5.9	5.9	3.6	3.6	0.0	6.5	3.7	7.4
Development Fees (linkage)	4.5	18.2	4.5	9.1	3.3	8.2	6.3	12.5	5.7	11.3	0.0	11.8	0.0	10.7	0.0	29.0	11.1	14.8
Employee Training/Retraining	45.5	13.6	40.9	27.3	21.3	26.2	21.9	37.5	26.4	26.4	23.5	47.1	28.6	21.4	29.0	35.5	20.4	11.1
Entrepreneurial Assistance	27.3	13.6	27.3	18.2	19.7	26.2	15.6	34.4	17.0	20.8	17.6	41.2	10.7	25.0	12.9	25.8	9.3	33.3
Infrastructure Improvements	45.5	31.8	45.5	36.4	54.1	24.6	53.1	28.1	50.9	32.1	47.1	35.3	53.6	25.0	32.3	51.6	42.6	33.3
Land Acquisition	0.0	50.0	36.4	40.9	29.5	31.1	37.5	37.5	22.6	39.6	29.4	29.4	10.7	21.4	16.1	32.3	20.4	44.4
Land Clearance	0.0	40.9	31.8	50.0	27.9	34.4	31.3	28.1	17.0	30.2	41.2	17.6	3.6	25.0	12.9	19.4	18.5	29.6
Land Condemnation	0.0	36.4	22.7	27.3	14.8	23.0	31.3	31.3	15.1	39.6	23.5	23.5	3.6	17.9	6.5	29.0	11.1	37.0
Leasing of Land to Developers	18.2	4.5	13.6	27.3	6.6	18.0	12.5	28.1	5.7	22.6	5.9	17.6	3.6	17.9	0.0	25.8	3.7	27.8
Local Survey of Business Needs	9.1	36.4	31.8	22.7	18.0	42.6	18.8	37.5	28.3	22.6	29.4	29.4	14.3	25.0	9.7	41.9	16.7	16.7
Lot Consolidation	0.0	13.6	27.3	31.8	11.5	29.5	21.9	21.9	13.2	24.5	11.8	17.6	10.7	14.3	3.2	19.4	16.7	25.9
One Stop Business Center (permitting)	18.2	9.1	27.3	9.1	23.0	11.5	18.8	12.5	22.6	9.4	5.9	11.8	25.0	21.4	32.3	12.9	29.6	0.0
Procurement Assistance	0.0	9.1	13.6	13.6	11.5	16.4	3.1	15.6	1.9	20.8	0.0	17.6	17.9	21.4	0.0	25.8	7.4	14.8
Relaxation of Building or Zoning Regs.	0.0	9.1	4.5	22.7	1.6	16.4	0.0	18.8	7.5	13.2	0.0	23.5	7.1	7.1	0.0	35.5	0.0	22.2
Relaxation of Environmental Regs.	0.0	4.5	0.0	0.0	0.0	4.9	0.0	6.3	0.0	0.0	0.0	5.9	0.0	3.6	0.0	3.2	1.9	1.9
Relocation of Residents & Business	4.5	27.3	22.7	27.3	27.9	29.5	31.3	28.1	5.7	43.4	23.5	23.5	3.6	10.7	12.9	22.6	18.5	31.5
Sale of Land to Developers	27.3	31.8	54.5	18.2	23.0	34.4	28.1	46.9	20.8	43.4	23.5	35.3	7.1	28.6	0.0	45.2	25.9	33.3
Special Purpose Zoning	9.1	27.3	13.6	18.2	1.6	23.0	9.4	28.1	13.2	26.4	0.0	23.5	3.6	25.0	9.7	35.5	1.9	27.8
Strategic Planning	22.7	31.8	36.4	22.7	26.2	19.7	40.6	18.8	22.6	22.6	41.2	17.6	17.9	25.0	29.0	35.5	20.4	20.4
MARKET EXPANSION																		
Advertising	27.3	36.4	27.3	45.5	21.3	36.1	21.9	31.3	22.6	37.7	23.5	41.2	21.4	25.0	29.0	45.2	13.0	33.3
Export Assistance	4.5	18.2	4.5	0.0	6.6	8.2	3.1	18.8	1.9	5.7	5.9	17.6	7.1	10.7	6.5	9.7	1.9	9.3
Marketing Strategy	22.7	27.3	36.4	40.9	32.8	26.2	31.3	37.5	28.3	26.4	41.2	17.6	25.0	32.1	38.7	22.6	20.4	29.6
Promotional Missions (domestic)	4.5	22.7	0.0	36.4	11.5	32.8	18.8	25.0	17.0	22.6	29.4	35.3	21.4	42.9	12.9	35.5	9.3	16.7
Trade Missions Abroad	4.5	9.1	9.1	9.1	1.6	18.0	3.1	21.9	5.7	20.8	5.9	35.3	3.6	25.0	6.5	29.0	1.9	18.5

Region is a useful lens through which to view the data. The usage rates in Table III-2 can be examined from two perspectives: across regions and within regions. The rows of the table provide a comparison of individual tool use in different regions of the country allowing one to determine how extensively the cities in one region use a specific tool compared to cities in another region. The columns of the table offer an indication of the way specific regions assemble packages of tools to tackle the economic development issue. Examining these columns provides a sense of regional style.

Use of economic development tools varies by region. This characteristic is evident from the first row in the table to the last. It is important, however, to separate the variation attributable to the popularity of the tools versus that which is a function of regional preference. Regardless of region, infrastructure and tax-exempt bonds are popular, whereas relaxation of environmental regulations is not. On the other hand, region is an important consideration in gauging the use of other tools such as those related to land development (lot consolidation, land condemnation, acquisition, and clearance). Land development tools are especially prominent in the Eastern part of the country, but their use tapers off somewhat in the West. Within the East however, some variation exists. For example, fewer New England cities use land development tools and at a far lower rate.

Although regional variation is a persistent condition, it is not consistent. For example, there is tremendous variation in the use of tax abatement. Compare the level of extensive use of tax abatement in regions like the Mid-Atlantic (40.9%) with the Mountain (0.0%) and Pacific (0.0%) regions. Other cost reduction tools exhibit similar ranges. For example, loan guarantees and loan subsidies are used much more extensively in the Mid-Atlantic and West North Central than they are throughout the rest of the country.

While it is important not to overstate regional variation (the usage rates of some tools do not vary substantially from one region to another), generally, tool usage is much more prevalent in some regions than in others. Cities in the Mountain and Pacific regions typically use economic development tools at a lower-than-average rate; cities in the Mid-Atlantic appear to have embraced the use of the tools wholeheartedly. Undoubtedly, there are many reasons for these usage patterns. Focusing on region as an entity will help elucidate the differing approaches and emphases across the nation.

New England

Like cities around the country, New England cities use infrastructure improvements and tax-exempt bonds to promote economic development. Compared to other cities, however, they are more heavily involved in employee training/retraining and in revolving loan funds. They only show significant involvement (25% or more reporting extensive use) with four other tools: historic preservation, the sale of land to developers, entrepreneurial assistance, and advertising. Overall, New England cities tend to be more resistant to the use of economic development tools than most other sections of the country. Thirteen of the tools have zero percent of the cities reporting extensive use. Another seventeen are used extensively by fewer than 10% of the cities.

Mid-Atlantic

The cities of the Mid-Atlantic area use an array of tools and use them extensively. This region stands in sharp contrast to its neighbors in New England. Mid-Atlantic cities use cost reduction strategies more than any region in the country. Over 40% of the cities in the region report extensive use of tax-exempt bonds, revolving loan funds, historic preservation, direct loans to private business, and tax abatement. More than anywhere else in the country, the Mid-Atlantic cities experiment with syndication. The use of capacity improvement mechanisms is less prevalent (only sale of land to developers, infrastructure improvements, and employee training/retraining are extensively used by 40% or more of the cities), but compared to other regions, it is still very strong. The tendency toward experimentation is great. Even in instances where extensive use of a tool is comparatively low, there is a comparatively high degree of occasional use.

East North Central

East North Central cities tend toward the middle, that is, they resemble the aggregate sample. There are few extremes, either in relative over-use or under-use of the tools. As a consequence, the cities of the East North Central region have fairly conventional economic development approaches. They use tax-exempt bonds, revolving loan funds, and direct loans as cost reduction strategies. They invest in infrastructure improvements, land acquisition and clearance, along with relocation of businesses and residents for capacity improvement. To expand the market, they rely on marketing strategy and advertising. Overall, the East North Central cities vary little from the national pattern of tool use.

West North Central

Three tools are extensively used by more than 40% of the cities in the West North Central region. In addition to the predictable use of infrastructure improvements and tax-exempt bonds, many West North Central cities use strategic planning. In only one other region is strategic planning being used to such an extent by so many cities. Land development tools (specifically, land condemnation, acquisition, clearance, and sale to developers and relocation of business and residents) are used extensively by 25% or more of the cities in the region. The other distinguishing features of the economic development scene in the West North Central region include a high level (compared to other regions) of experimentation with development fees and three cost reduction techniques: loan guarantees, sale-lease back, and taxable bonds.

South Atlantic

Other than infrastructure improvements, the South Atlantic cities are characterized by a relatively average reliance on economic development tools. They tend to use the issuance of tax-exempt bonds as a cost reduction tool, infrastructure improvements, employee training/retraining, and local survey of business needs as capacity improvement mechanisms, and marketing strategy to expand their market. Compared to other cities, the South Atlantic cities have avoided, for the most part, extensive use of tax abatement and land write-downs. Fewer cities in the region are engaged in relocating businesses and residents from areas to be developed.

East South Central

More cities in the East South Central region use historic preservation extensively than use infrastructure improvements or tax-exempt bonds. This makes the region unique. Overall, the cities in the region rely on capacity improvement and market expansion more than cost reduction strategies. The East South Central region has a higher proportion of cities than any other region reporting the extensive use of tools such as building construction/renovation, land clearance, strategic planning, marketing strategy, and domestic promotional missions. There is a degree of selectivity operating in the region, also. Ten tools have no reports of extensive use in any of the cities in the region.

West South Central

One of the notable features of the West South Central region is the relatively extensive use of foreign trade zones given the relatively limited use of land development tools. Cities in the region are, in some cases, less involved in developmental land activities than are cities in New England. Lot consolidation, land condemnation, acquisition, clearance and sale to developers, and relocation are not extensively used by the West South Central cities. Neither are these cities extensively engaged in related cost reduction activities. West South Central cities typically do not use land write-downs or donation of land to developers. In general, the cities in the region tend to have lower-than- average usage rates for the standard set of tools. Two instances in which they lead, however, are procurement assistance and export assistance.

Mountain

Mountain cities generally do not embrace economic development tools, and Table III-2 displays may zero percentages in the "extensive" use column. In addition to the fifteen tools that none of the cities in the region use extensively, an equal number of tools are used extensively by less than 10% of the cities. In other words, two-thirds of the available economic development tools experience very limited use in the Mountain region. The tools that are popular in the region are the conventional ones: tax-exempt bonds, infrastructure improvements, employee training/retraining, and marketing strategy. There is one exception to the pattern of limited use. Mountain cities use one stop business permitting centers more extensively than any other region.

Pacific

The Pacific cities are characterized by the relatively low use of some of the most popular tools. Compared to the rest of the nation, cities in the region report the lowest extensive use rates for tax-exempt bonds, historic preservation, and advertising -- the tools that form the core of the economic development efforts in other regions. The tool that may be the key to understanding the different economic development process in the region is development fees (linkage). Pacific cities use this tool more extensively than anywhere else in the country. Overall, Pacific cities do not use economic development tools very extensively. Only three tools are used extensively by 25% or more of the cities: infrastructure improvements, one stop business permitting center, and land sales to developers.

(3) City Distress Level and Tool Use

One of the prevailing arguments in local economic development theory is that distressed cities will more actively use the tools at their disposal than will nondistressed cities. The logic underlying this view is that use of the tools will ameliorate, somewhat, the distress that the cities are facing. Put another way, distressed cities "need" the tools; nondistressed cities do not. Some might argue that this view implies a fairly negative approach to tool usage and, if the tools are ameliorative, attributes a fairly shortsighted perspective to the leadership of the nondistressed cities. The merits of either argument notwithstanding, the issue is worth pursuing.

There are many distress measures. For this report, the distress measure developed by the U.S. Department of Housing and Urban Development for its Urban Development Action Grant (UDAG) program is the most appropriate. It is a current, comprehensive measure available for almost all of the cities in the sample. For UDAG purposes, cities are assigned qualification points based on the following factors: population growth 1960-1982, amount of poverty, age of housing, per capita income growth 1969-1981, job lag in retail and manufacturing sectors 1977-1982, unemployment rate, and degree of labor surplus. These factors allow for the differentiation of cities according to distress or, to take the opposite perspective, health and nine different distress categories arise. For the purposes of economic development, a distressed city is one that suffers a comparative disadvantage. A healthy city, on the other hand, enjoys a comparative advantage.

Eighteen cities in the sample are classified as the least distressed; 35 fall into the most distressed category. The seven categories between these two extremes include (in order of ascending distress): 28 cities, 46 cities, 36 cities, 27 cities (at the midlevel distress

TABLE III-3 1986 TOOL USAGE BY DISTRESS

	LEAST DISTRESSED 1		2		3		4		MIDLEVEL DISTRESS 5		6		7		8		MOST DISTRESSED 9	
	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.
COST REDUCTION																		
Deferred Tax Payments	0.0	11.1	0.0	0.0	4.3	6.5	5.6	5.6	0.0	7.4	0.0	6.1	2.5	15.0	3.7	11.1	2.9	5.7
Direct Cash Contribution to Project	11.1	27.8	7.1	35.7	2.2	28.3	8.3	30.6	0.0	44.4	6.1	39.4	10.0	20.0	14.8	33.3	14.3	34.3
Direct Loans to Private Business	5.6	11.1	3.6	39.3	0.0	21.7	5.6	22.2	11.1	37.0	21.2	39.4	25.0	37.5	29.6	44.4	54.3	20.0
Donation of Land to Developers	0.0	0.0	3.6	3.6	0.0	8.7	2.8	11.1	0.0	11.1	0.0	6.1	0.0	22.5	3.7	33.3	0.0	11.4
Donations of Unused Real Property	5.6	11.1	7.1	10.7	0.0	10.9	2.8	13.9	0.0	33.3	3.0	18.2	0.0	30.0	11.1	29.6	11.4	34.3
Foreign Trade Zones	0.0	0.0	3.6	14.3	6.5	6.5	2.8	16.7	3.7	7.4	12.1	21.2	7.5	17.5	7.4	40.7	2.9	25.7
Historic Preservation Designation	5.6	22.2	7.1	35.7	13.0	32.6	13.9	36.1	18.5	18.5	21.2	33.3	45.0	30.0	37.0	44.4	28.6	57.1
In-Kind Payment	0.0	22.2	3.6	25.0	6.5	21.7	2.8	13.9	3.7	7.4	6.1	24.2	2.5	17.5	11.1	29.6	5.7	11.4
Issuance of Tax-Exempt Bonds	16.7	38.9	32.1	39.3	32.6	43.5	27.8	38.9	33.3	29.6	36.4	39.4	52.5	22.5	48.1	33.3	45.7	37.1
Land Write-Downs	16.7	11.1	7.1	25.0	8.7	19.6	8.3	19.4	0.0	25.9	18.2	18.2	12.5	22.5	14.8	40.7	14.3	40.0
Loan Guarantees	5.6	16.7	3.6	14.3	2.2	17.4	5.6	13.9	3.7	14.8	0.0	39.4	5.0	30.0	14.8	25.9	17.1	40.0
Loan Subsidies	0.0	27.8	7.1	25.0	4.3	15.2	2.8	22.2	11.1	11.1	15.2	21.2	17.5	25.0	37.0	25.9	25.7	37.1
Revolving Loan Funds	0.0	22.2	14.3	28.6	8.7	21.7	13.9	16.7	22.2	29.6	33.3	24.2	47.5	17.5	48.1	25.9	60.0	17.1
Sale-Lease Back	0.0	5.6	3.6	3.6	0.0	10.9	2.8	11.1	7.4	3.7	3.0	15.2	0.0	15.0	3.7	18.5	0.0	8.6
Shared Equity	0.0	11.1	7.1	3.6	2.2	4.3	0.0	16.7	3.7	7.4	3.0	12.1	2.5	10.0	0.0	40.7	5.7	17.1
Syndication	0.0	0.0	0.0	0.0	0.0	2.2	0.0	5.6	7.4	0.0	12.1	9.1	5.0	7.5	14.8	7.4	2.9	11.4
Tax Abatement	0.0	11.1	3.6	10.7	10.9	10.9	8.3	30.6	3.7	18.5	9.1	33.3	10.0	47.5	25.9	37.0	37.1	45.7
Taxable Bonds	0.0	0.0	0.0	3.6	0.0	6.5	2.8	5.6	3.7	7.4	6.1	15.2	5.0	12.5	11.1	22.2	5.7	14.3
Venture Capital	0.0	5.6	0.0	3.6	0.0	10.9	2.8	5.6	0.0	3.7	6.1	3.0	0.0	12.5	3.7	25.9	0.0	14.3
CAPACITY IMPROVEMENT																		
Assignment of Air Rights	0.0	0.0	0.0	7.1	0.0	15.2	0.0	13.9	0.0	11.1	3.0	24.2	5.0	22.5	3.7	22.2	2.9	22.9
Building Construction/Renovation	5.6	16.7	17.9	17.9	2.2	17.4	19.4	19.4	14.8	18.5	9.1	24.2	25.0	22.5	29.6	33.3	31.4	17.1
Daycare Assistance	0.0	11.1	7.1	3.6	0.0	8.7	5.6	2.8	3.7	3.7	3.0	0.0	2.5	12.5	14.8	11.1	2.9	2.9
Development Fees (linkage)	5.6	22.2	3.6	14.3	6.5	8.7	2.8	16.7	7.4	11.1	3.0	24.2	7.5	7.5	3.7	18.5	5.7	11.4
Employee Training/Retraining	5.6	16.7	14.3	28.6	13.0	23.9	25.0	25.0	25.9	18.5	39.4	24.2	42.5	25.0	44.4	33.3	34.3	42.9
Entrepreneurial Assistance	5.6	16.7	3.6	17.9	10.9	19.6	5.6	25.0	22.2	29.6	24.2	33.3	20.0	32.5	29.6	37.0	28.6	25.7
Infrastructure Improvements	38.9	27.8	35.7	46.4	45.7	28.3	47.2	25.0	48.1	37.0	69.7	24.2	50.0	30.0	55.6	44.4	62.9	28.6
Land Acquisition	16.7	27.8	17.9	46.4	15.2	32.6	16.7	33.3	14.8	40.7	39.4	39.4	20.0	42.5	48.1	44.4	40.0	37.1
Land Clearance	16.7	16.7	14.3	35.7	13.0	26.1	16.7	33.3	11.1	25.9	33.3	33.3	15.0	40.0	33.3	40.7	45.7	37.1
Land Condemnation	5.6	38.9	7.1	42.9	4.3	23.9	13.9	30.6	14.8	25.9	24.2	39.4	12.5	35.0	29.6	33.3	28.6	28.6
Leasing of Land to Developers	0.0	16.7	7.1	17.9	4.3	23.9	0.0	13.9	3.7	29.6	12.1	21.2	12.5	30.0	7.4	33.3	17.1	25.7
Local Survey of Business Needs	0.0	16.7	17.9	32.1	8.7	45.7	16.7	16.7	11.1	25.9	24.2	36.4	30.0	27.5	40.7	29.6	28.6	31.4
Lot Consolidation	11.1	22.2	10.7	17.9	4.3	21.7	11.1	19.4	11.1	22.2	30.3	27.3	15.0	20.0	14.8	48.1	22.9	31.4
One Stop Business Center (permitting)	27.8	0.0	25.0	10.7	17.4	13.0	22.2	8.3	11.1	11.1	27.3	9.1	35.0	5.0	33.3	22.2	20.0	8.6
Procurement Assistance	0.0	5.6	0.0	7.1	0.0	26.1	11.1	16.7	7.4	7.4	6.1	18.2	7.5	12.5	22.2	29.6	11.4	31.4
Relaxation of Building or Zoning Regs.	0.0	27.8	0.0	28.6	2.2	17.4	0.0	13.9	3.7	14.8	0.0	18.2	10.0	17.5	3.7	14.8	0.0	17.1
Relaxation of Environmental Regs.	0.0	0.0	0.0	3.6	0.0	8.7	0.0	5.6	0.0	0.0	0.0	0.0	2.5	2.5	0.0	0.0	0.0	2.9
Relocation of Residents & Business	11.1	22.2	21.4	28.6	8.7	23.9	8.3	36.1	11.1	29.6	30.3	21.2	15.0	45.0	25.9	29.6	40.0	37.1
Sale of Land to Developers	11.1	16.7	17.9	32.1	17.4	41.3	8.3	47.2	7.4	40.7	30.3	39.4	30.0	35.0	40.7	33.3	48.6	37.1
Special Purpose Zoning	5.6	33.3	3.6	21.4	8.7	32.6	5.6	38.9	7.4	18.5	3.0	24.2	12.5	22.5	7.4	25.9	2.9	25.7
Strategic Planning	27.8	11.1	25.0	28.6	30.4	17.4	22.2	30.6	25.9	14.8	24.2	27.3	25.0	32.5	44.4	11.1	34.3	20.0
MARKET EXPANSION																		
Advertising	16.7	33.3	17.9	39.3	13.0	26.1	33.3	25.0	14.8	29.6	15.2	45.5	25.0	40.0	37.0	48.1	31.4	40.0
Export Assistance	0.0	5.6	3.6	3.6	2.2	4.3	5.6	11.1	3.7	11.1	3.0	15.2	7.5	5.0	7.4	25.9	8.6	11.4
Marketing Strategy	27.8	16.7	14.3	35.7	17.4	28.3	36.1	27.8	22.2	18.5	27.3	33.3	37.5	22.5	44.4	37.0	45.7	31.4
Promotional Missions (domestic)	5.6	22.2	14.3	17.9	6.5	26.1	19.4	27.8	11.1	25.9	6.1	27.3	20.0	25.0	25.9	48.1	14.3	37.1
Trade Missions Abroad	0.0	16.7	7.1	10.7	2.2	17.4	2.8	25.0	3.7	11.1	6.1	21.2	5.0	20.0	11.1	40.7	2.9	31.4

point), 33 cities, 40 cities, and 27 cities. Table III-3 presents tool usage data by distress category.

The data in Table III-3 confirm the widely-held notion that more distressed cities use economic development tools and use them more extensively than do nondistressed cities. Comparing the left-most column of figures to the right-most column makes the point abundantly clear. It is not an exactly linear relationship, however. That is, the use percentages in the columns do not increase as the level of distress increases. (Were it not for the "overuse" by one distress group, the extensive use of revolving loan funds would exhibit linearity.) Some variation does exist. As a general rule, however, greater distress does signify higher tool use.

Distress level does not affect the use of some tools. Regardless of distress level, cities are not making extensive use of shared equity arrangements, venture capital, donation of land to developers, assignment of air rights, or relaxation of environmental regulations.

To simplify discussion of the data in Table III-3, the nine distress categories can be considered as three composite classifications. The low distress grouping includes columns 1 - 3, mid-level distress is made up of columns 4 - 6, and high distress includes columns 7 - 9. The ensuing discussion is an interpolation of the nine columns of data in Table III-3.

Low Distress Cities

Cities in the low distress grouping use fewer economic development tools and use them less extensively than cities in other distress groupings. This tendency is firmly established among the least distressed grouping but it characterizes the rest of the low distress cities as well. Economic development in low distress cities focuses on two tools: tax-exempt bonds and infrastructure improvements. To a lesser extent, they use strategic planning and one stop business permitting centers. Beyond these activities, low distress cities tend toward occasional use of economic develoment tools. Even at the occasional level of use, the numbers are relatively low. This is true regardless of whether the tool is aimed at cost reduction, capacity improvement, or market expansion. One can conclude, therefore, that economic development is not an activity in which low distress cities typically engage. This lends support to the argument that the use of economic development tools is inversely related to a city's economic health.

Mid-level Distress Cities

With respect to using economic development tools, the mid-level distress cities stand between the limited use that low distress cities make of the tools and the relatively extensive use by high distress cities. The extensive use by mid-level distress cities of direct loans to business, revolving loan funds, historic preservation, and local survey of business needs follows this pattern. In using some of the other tools however, e.g., loan guarantees and donation of unused real property, the mid-level distress cities behave more like low distress cities. As a general rule, the mid-level distress cities tend toward a moderate level of tool use.

One group within the mid-level cluster is worth examining more closely. Its usage rates are in column six of Table III-3. Cities in this group use foreign trade zones, land write-downs, lot consolidation, and infrastructure improvements more extensively than any other distress group. They are more aggressive with these techniques than even the most distressed cities. One explanation for this may be that mid-level distress cities are take preemptive maintenance actions to guard against greater distress.

High Distress Cities

The most extensive use of economic development tools is found among the high distress cities. In virtually every case, the greatest tool reliance (that is, a high percentage of extensive use) occurs in one of the three high distress groups. They outpace their lesser distressed counterparts quite dramatically in some instances. For example, over half of the most distressed cities extensively use a tool -- direct loans to business -- that involves substantial city involvement in the private sector. One third of the most distressed cities extensively use a technique -- tax abatement -- that affects the revenue pool available for public services. Thus, not only can it be said that the high distress cluster uses many tools quite extensively, they also use a package of interventionist tools.

High distress cities use other cost reduction tools such as loan subsidies, tax-exempt bonds, revolving loan funds, and historic preservation. For capacity improvement, they opt for infrastructure improvements and land development tools. Also popular among highly distressed cities are building construction/renovation, employee training/retraining, one stop business permitting centers, local surveys of business needs, entrepreneurial assistance and strategic planning. For market expansion, they rely on adverstising and marketing strategies. The high distress cities are actively attempting to reverse their fortunes.

Surprisingly, these cities are not using some of the more innovative tools at a high rate. Granted, they use them at perhaps double the rate of lesser distressed places, but regardless, the actual proportions are fairly low. This is true of shared equity, sale lease-back, syndication, venture capital, and foreign trade zones, among the cost reduction tools. For capacity improvement, few high distress cities are assigning air rights or using special purpose zoning. And for market expansion, the globally-oriented tools, trade missions abroad and export assistance, lag behind. Therefore, although the high distress cities are the most active, they tend to rely on the more conventional economic development techniques.

(4) Economic Structure and Tool Use

A final city characteristic likely to influence economic development policy is economic structure or mix. A knowledge of the local economy and its components is one of the keys to establishing an effective economic development strategy. The Census uses eleven different sectors: agriculture, forestry/ fisheries, mining, construction, manufacturing, transportation/ communications/other public utilities, wholesale trade, retail trade, finance/insurance/real estate, services, and public administration. Nationally, three sectors dominate local economies: 31% of the civilian workforce is employed in the service sector, 21% in manufacturing, and 17% in retail. Using the national average as the standard, each city over 100,000 in population was categorized according to the relative importance of the service, manufacturing, and retail sectors. Importance was measured by the percentage of the civilian workforce employed in each of the three sectors.

Seven identifiable groups exist among these cities. There are national mix cities whose proportional employment in services, manufacturing, and retail mirrors the national average. Service cities, on the other hand, are those in which service employment dwarfs both manufacturing and retail. Cities that are labeled retail are those that differ from the national standard in that, after services, retail is the second most important activity, manufacturing the third. In manufacturing cities, the manufacturing sector is the dominant activity, services second, and retail a distant third. A cluster of cities that is comparable to but distinct from both the manufacturing and national mix clusters is called manufacturing/service. These cities have higher than average manufacturing employment, but maintain significant service and retail sectors.

During the categorization process one other sector emerged as important: public administration. In these government cities, the service sector prevails but the governmental sector is a strong second or third. The remaining cities do not fit into any of these categories but do not share enough characteristics to make them a substantively meaningful category. They are called unclassified.

As noted above, only cities with populations of 100,000 or more were classified according to their economic structure. This represents a subset of the original sample and means that the percentages are not comparable to the aggregate figures in Table II-1 in the previous chapter. There are 39 cities in the national mix category, 20 in service, 16 in manufacturing, 21 in retail, 5 in manufacturing/service, 19 in government, and 17 unclassifiable.

Two points should be taken into consideration. First, the small number of cities in the manufacturing/service category effectively renders the corresponding percentages problematic. Second, the unclassified category includes economically dissimilar cities, therefore no substantive meaning should be inferred from the percentages. Because of these limitations, neither the manufacturing/service cluster nor the unclassified cities will be discussed. The usage rates for the five remaining economic types are displayed in Table III-4.

As was evident with city population size, region, and distress, tool usage rates vary across the different types of city economies. The use of tax abatement is illustrative of the point. It is extensively used as the tool of choice among national mix and manufacturing cities averaging 31.3% and 28.2% respectively. It is not, however, widely used in government cities (5.3%), service cities (5.0%), or retail cities (0%). The tax abatement

TABLE III-4 1986 TOOL USAGE BY CITY ECONOMIC STRUCTURE

	NATIONAL MIX		MANUFACTURING		RETAIL		SERVICE		GOVERNMENT	
TOOLS	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.	EXT.	OCC.
COST REDUCTION										
Deferred Tax Payments	2.6	12.8	0.0	12.5	4.8	0.0	0.0	20.0	0.0	10.5
Direct Cash Contribution to Project	10.3	41.0	18.8	25.0	0.0	28.6	10.0	40.0	10.5	36.8
Direct Loans to Private Business	35.9	28.2	37.5	31.3	14.3	33.3	20.0	40.0	26.3	42.1
Donation of Land to Developers	2.6	23.1	0.0	25.0	0.0	0.0	0.0	25.0	0.0	5.3
Donations of Unused Real Property	7.7	17.9	12.5	31.3	4.8	9.5	0.0	50.0	5.3	26.3
Foreign Trade Zones	10.3	28.2	0.0	25.0	14.3	28.6	10.0	35.0	5.3	15.8
Historic Preservation Designation	25.6	56.4	25.0	43.8	28.6	38.1	40.0	30.0	15.8	57.9
In-Kind Payment	15.4	15.4	0.0	18.8	0.0	19.0	0.0	35.0	0.0	47.4
Issuance of Tax-Exempt Bonds	66.7	20.5	37.5	31.3	28.6	66.7	45.0	40.0	47.4	31.6
Land Write-Downs	23.1	33.3	25.0	31.3	9.5	33.3	5.0	35.0	5.3	21.1
Loan Guarantees	5.1	41.0	6.3	31.3	4.8	28.6	15.0	30.0	15.8	21.1
Loan Subsidies	28.2	33.3	31.3	37.5	9.5	19.0	20.0	15.0	5.3	31.6
Revolving Loan Funds	51.3	25.6	43.8	12.5	19.0	28.6	55.0	20.0	36.8	21.1
Sale-Lease Back	0.0	15.4	0.0	6.3	0.0	4.8	10.0	10.0	0.0	31.6
Shared Equity	5.1	30.8	0.0	12.5	0.0	4.8	5.0	30.0	0.0	21.1
Syndication	10.3	2.6	6.3	12.5	0.0	9.5	0.0	10.0	5.3	0.0
Tax Abatement	28.2	35.9	31.3	50.0	0.0	38.1	5.0	45.0	5.3	26.3
Taxable Bonds	7.7	10.3	6.3	6.3	0.0	14.3	5.0	15.0	0.0	15.8
Venture Capital	2.6	17.9	6.3	18.8	0.0	0.0	0.0	20.0	5.3	10.5
CAPACITY IMPROVEMENT										
Assignment of Air Rights	5.1	23.1	0.0	31.3	0.0	9.5	10.0	30.0	0.0	21.1
Building Construction/Renovation	23.1	17.9	25.0	31.3	9.5	19.0	15.0	25.0	26.3	26.3
Daycare Assistance	5.1	7.7	0.0	0.0	0.0	14.3	0.0	5.0	10.5	5.3
Development Fees (linkage)	2.6	7.7	6.3	12.5	0.0	23.8	20.0	5.0	5.3	15.8
Employee Training/Retraining	41.0	35.9	50.0	31.3	33.3	33.3	70.0	20.0	36.8	26.3
Entrepreneurial Assistance	23.1	30.8	12.5	43.8	9.5	38.1	35.0	45.0	15.8	36.8
Infrastructure Improvements	64.1	30.8	68.8	12.5	52.4	38.1	60.0	40.0	52.6	36.8
Land Acquisition	41.0	41.0	62.5	18.8	9.5	52.4	25.0	55.0	31.6	31.6
Land Clearance	33.3	46.2	56.3	31.3	9.5	33.3	30.0	35.0	26.3	42.1
Land Condemnation	35.9	28.2	37.5	37.5	9.5	33.3	15.0	45.0	10.5	63.2
Leasing of Land to Developers	15.4	35.9	12.5	18.8	4.8	19.0	10.0	25.0	10.5	31.6
Local Survey of Business Needs	15.4	35.9	37.5	43.8	23.8	28.6	35.0	10.0	15.8	36.8
Lot Consolidation	23.1	25.6	31.3	25.0	9.5	28.6	25.0	30.0	21.1	52.6
One Stop Business Center (permitting)	23.1	12.8	37.5	6.3	28.6	9.5	10.0	5.0	26.3	15.8
Procurement Assistance	20.5	20.5	12.5	12.5	0.0	28.6	10.0	25.0	10.5	42.1
Relaxation of Building or Zoning Regs.	2.6	7.7	0.0	25.0	4.8	23.8	5.0	30.0	0.0	15.8
Relaxation of Environmental Regs.	0.0	0.0	0.0	12.5	0.0	4.8	0.0	5.0	0.0	5.3
Relocation of Residents & Business	38.5	30.8	50.0	25.0	14.3	42.9	15.0	45.0	5.3	47.4
Sale of Land to Developers	46.2	35.9	68.8	18.8	9.5	38.1	25.0	50.0	21.1	57.9
Special Purpose Zoning	5.1	28.2	6.3	12.5	0.0	33.3	15.0	25.0	5.3	26.3
Strategic Planning	38.5	23.1	25.0	31.3	19.0	33.3	40.0	30.0	31.6	36.8
MARKET EXPANSION										
Advertising	23.1	41.0	37.5	31.3	28.6	47.6	30.0	40.0	26.3	36.8
Export Assistance	7.7	20.5	12.5	6.3	4.8	4.8	10.0	10.0	5.3	0.0
Marketing Strategy	38.5	35.9	37.5	37.5	19.0	42.9	45.0	35.0	47.4	26.3
Promotional Missions (domestic)	23.1	25.6	12.5	31.3	19.0	23.8	20.0	35.0	15.8	36.8
Trade Missions Abroad	2.6	35.9	0.0	18.8	9.5	47.6	20.0	40.0	0.0	42.1

case presages the only discernible pattern among the cost reduction and capacity improvement approaches.

The national mix and manufacturing cities exhibit a higher level of tool use; the retail, service and government cities a lower rate. As usual, this general rule has exceptions, but the exceptions do not exhibit patterns. Government cities behave like national mix and manufacturing cities in some cases, e.g., the extensive use of building construction/renovation; in others such as historic preservation, the retail cities resemble the national mix and manufacturing city usages.

The economic structure of a city does not appear to be the determining factor in the choice of market expansion tools. An exploration of the use of economic development tools by structural type is illuminating.

National Mix

The national mix cities are active users of economic development tools. If a 40% extensive usage rate is the measure of reliance, then national mix cities rely upon tax-exempt bonds, infrastructure improvements, revolving loan funds, land acquisition, land sales to developers, and employee training/retraining. Tools in the 30-40% extensive usage range include: direct loans to private business, land condemnation, land clearance, relocation of residents and businesses from redevelopment areas, strategic planning, and marketing strategy.

If the national mix cities are considered the archetypal American city, then these data provide an answer to the query "what are U.S. cities doing to promote economic development?" The answer lies in the preceding list of tools. If a combined extensive and occasional use rate of 20% or below indicates what cities are not doing, then many economic development activities are being neglected by the typical city. The average U.S. city is not offering tax deferrals, creating sale-lease back arrangements, issuing taxable bonds, engaging in syndication, relaxing environmental or building regulations, providing daycare assistance, or imposing linkage-type development fees.

Manufacturing Cities

Manufacturing cities focus on capacity improvement tools for their economic development activities. The capacity improvement tools favored by manufacturing cities tend to involve land use. They include infrastructure improvement, land acquisition, land clearance, land sales to developers, and relocation of residents and businesses from redevelopment areas. The other capacity improvement tool relied upon by these cities is employee training/retraining. Revolving loan funds are the only cost reduction tool used at a similar rate. This suggests that the core of the economic development effort in manufacturing cities is substantively different from both the national mix cities and the retail cities.

Tools used by manufacturing cities are typically different from the traditional economic development tools. An examination of the less popular cost reduction tools in which manufacturing cities lead the other four groups is instructive. More manufacturing cities extensively use direct cash contribution to projects, donation of unused real property, and venture capital than do the other types of cities. This suggests a different orientation to economic development in manufacturing cities.

Retail Cities

For the most part, retail cities do not use economic development tools extensively. Infrastructure improvement is the only tool that meets the reliance test in retail cities. And, only one other tool, employee training/retraining is extensively used by as many as 30% of retail cities. Even the issuance of tax-exempt bonds, a staple of most local economic development programs, occurs extensively in only 28.6% of the retail cities. At the other extreme, as many as thirteen of the tools have combined extensive and occasional usage rates of less than 20%. What retail cities are doing in addition to improving their infrastructure and offering employee training and retraining programs is advertising, designating property as historic, creating one stop business permitting centers, and issuing tax-exempt bonds. Other tools are used on a much more sporadic basis. Retail cities are characterized, then, by fairly lean economic development programs.

Service Cities

Service cities distinguish themselves from the other types with their comparatively high use of employee training/retraining (70%), revolving loan funds (55%), marketing strategy (45%), strategic planning (40%), historic preservation (40%), entrepreneurial assistance (35%), trade missions abroad (20%), and development fees--linkage--(20%). The use of entrepreneurial assistance, trade missions abraod, and linkaging sets the service city apart from other cities. As a result, these cities address the economic development issue from a different perspective than do the national mix, retail, or manufacturing cities. The tools they use represent an interesting combination of cost reduction, capacity improvement, and market expansion approaches to economic development.

On the average, service cities are relatively selective in their use of tools. Over half of the tools are used extensively by less than 20%. There is a tendency toward occasional use.

Government Cities

Government cities rely on three economic development tools: infrastructure improvements, tax-exempt bonds, and marketing strategy. These tools form the core of a government city's economic development program. Beyond tax-exempt bonds, the only other cost reduction tool popular (30-40% extensive usage) with government cities is revolving loan funds. There is more activity among the capacity improvement tools. Infrastructure improvement is bolstered by employee training/retraining (36.8%), land acquisition (31.6%), and strategic planning (31.6%). The other tools available for market expansion (in addition to marketing strategy) are not widely used by government cities.

The selectivity in tool usage by service cities pales by comparison to government cities. Virtually three-quarters of the tools are used extensively by less than 20% of government cities. The economic development strategy of government cities seems to be concentrated, not diffuse. The three typically low usage tools preferred by government cities include: loan guarantees, building construction/renovation, and daycare assistance.

CHAPTER IV

ECONOMIC DEVELOPMENT TARGETS AND TOOL USE

The economic development tools discussed in Chapters II and III are used by city governments purposively. That is, the tools are expected to produce results. As such, the tools are related to "targets" or objectives.

There are various types of economic development targets. Geographic targets isolate an area of the city for development. Entrepreneurial targets focus upon different kinds of start-up enterprises. Business targets address both the flow and the maintenance of business activity in the community. Occupational targets conceive of economic development in terms of employment and labor rather than area, enterprise, or sector. In developing their economic development strategies, cities "target" preferred outcomes. Assessing the importance that cities place on different targets will reveal both the definition and direction of contemporary local economic development.

The survey pursued the targeting question by asking respondents to indicate the degree of importance that their city assigns to each of the economic development targets. Importance was measured on a five-item scale ranging from "very important" to "not important." A total of nineteen targets were listed in the survey: four geographic, five entrepreneurial, five business, and five occupational.

These nineteen targets are not mutually exclusive. For example, a city could be developing a major project along a waterfront in an industrial section of the downtown area. Is the geographic target the waterfront, the industrial area, or the downtown? It is probably more accurate to think of the project as tri-target. This target overlap occurs not only within the target types but across them as well. The major project described above is likely to involve business targeting and perhaps some occupational targeting. The survey allows the economic development professional to weigh the relative importance of these different targets in his or her city.

The data in Table IV-1 report importance levels for each target. At a glance, it is evident that the targets do not share comparable levels of importance.

TABLE IV-1 IMPORTANCE OF ECONOMIC DEVELOPMENT TARGETS

	VERY IMPORTANT	BETWEEN VERY AND MODERATELY IMPORTANT	MODERATELY IMPORTANT	BETWEEN MODERATELY AND NOT IMPORTANT	NOT IMPORTANT
GEOGRAPHIC TARGETS					
Downtown Redevelopment	75.6	10.3	9.0	1.3	3.9
Neighborhood Centers	22.5	11.2	37.3	13.4	15.6
Waterfront Development *	36.0	5.6	15.6	6.4	36.4
Industrial Areas	54.3	20.2	18.5	2.3	4.6
ENTREPRENEURIAL TARGETS					
High Tech Development	29.9	22.7	32.4	9.7	5.4
Small Business Development	51.2	26.9	19.9	0.3	1.7
Office Buildings	30.3	25.0	29.2	9.9	5.6
Minority Business Development	25.1	21.0	29.5	13.7	10.7
Community Development Corps. *	12.9	15.7	28.6	20.2	22.6
BUSINESS TARGETS					
Retain Existing Business	67.1	23.0	7.7	1.3	1.0
Expand Existing Business	66.0	23.6	8.1	1.6	0.6
Retool Existing Business *	20.7	23.4	24.1	16.1	15.7
Attract New Business	69.7	20.3	8.7	1.0	0.3
Diversify Business Mix	39.9	30.4	18.8	7.8	3.1
OCCUPATIONAL TARGETS					
Routine Operations *	15.9	26.9	43.7	5.7	7.8
Precision Operations *	16.0	30.9	40.7	6.2	6.2
Research and Development *	29.4	33.2	28.2	6.1	3.1
Central Administration *	21.6	32.7	33.9	7.3	4.5
Entrepreneurship *	26.7	37.2	31.0	2.3	2.7

* = response rate less than 85%

(1) The Targets: From Very Important to Not Important

Six targets are most frequently "very important" for city economic development efforts. The six and their "very important" percentages are downtown redevelopment (75.6%), attracting new business (69.7%), retaining existing business (67.1%), expanding existing business (66.0%), industrial areas (54.3%), and small business development (51.2%). These are the only targets that a majority of the respondents agree are very important. They form a distinct cluster; that is, their importance level is far and away greater than any of the other potential targets. The absence of any occupational targets among the very important targets suggests that economic development continues to be thought of in terms of place, enterprise, and sector.

Geographic Targets

Downtown is the favorite geographic target of American cities' economic development efforts in American cities. Fewer than 4% of the cities consider it "not important."

A target frequently thought to rival downtown development is neighborhood centers. The rivalry revolves around the allocation of resources -- should economic development funds be concentrated in the central business district or should they be diffused throughout the city? Can a city successfully target both? The data suggest that, for most cities, the emphasis remains focused on downtown development. Although one-third of the cities consider neighborhood centers more than moderately important, over one-quarter find them less than moderately important. Compared to downtown development, neighborhood centers enjoy less support.

The other geographic target that cities regard as very important is industrial areas. It is clearly secondary to downtown development as a priority, however. The least important geographic target is waterfront development. One factor to keep in mind when evaluating the importance of waterfront development to cities is that waterfronts do not exist in every city. Therefore, 23% of the those surveyed did not answer the waterfront question. And, it should be assumed that some of the "not important" responses can be attributed to the lack of a waterfront. Given these cautions, the fact remains that waterfront development is less frequently important than downtowns and industrial areas.

Entrepreneurial Targets

Small business development is the most important entrepreneurial target. Over three-quarters of the cities judge it to be important or very important to their economic development programs. Only two percent of the cities consider small business development anything less than moderately important. No other entrepreneurial target approaches this level of significance. Two targets do, however, enjoy fairly solid support. One is office buildings -- often considered the key to central business district revitalization. The other is the target that some observers regard as cutting edge: high tech development. Both of these targets are deemed very important by almost one-third of the cities; important by one-quarter; and moderately important by another one-third.

Two other entrepreneurial targets -- minority business development and community development corporations -- are notable for their comparatively minimal level of importance to the cities. Minority business development and community development corporations are less than moderately important in 24.4% and 42.8% of the cities respectively. Both minority business development and community development corporations are ways of bringing into the economic development arena individuals and groups that are typically on the outside.

Business Targets

The targets that are specifically geared to the community investment definition of economic development are warmly endorsed by the respondents to the survey. Cities are committed to retaining existing business, expanding existing business, and attracting new business. Fully two-thirds of the cities accord very important status to these targets. Only a handful consider them to be less than moderately important. This suggests that virtually all cities have adopted a similar formula: support existing firms and bolster efforts to attract relocating firms.

Diversification of the business mix, long a goal of cities reliant upon a single industry, is an important target also, but to a lesser degree than the retention, expansion, and attraction targets. Retooling existing business, that is, assisting a local business that is restructuring its production process or is reorienting its marketing strategy, is the least important business target. Over 30% of the cities find it to be less than moderately important.

Occupational Targets

It is not customary for cities to enhance economic development by focusing on occupational targets. The response rate to this set of questions is uniformly lower (in the 75-80% range) than it is for the other target types. This drop-off in response rate suggests that the occupational targeting question is seen as less relevant by local economic development officials.

In those places where occupational targets are relevant, they tend to be of moderate importance. Only research and development and entrepreneurship are considered very important targets by as much as a quarter of the respondents. This does not imply a preponderance of negative sentiment, however. Less than 15% of the respondents evaluate any of the occupational targets below the moderately important level. Perhaps this conveys some uncertainty as to just what role occupational targets play in economic development strategy. Although the city can be conceptualized as a mix of businesses or geographic areas, it may be more difficult to see as a mix of occupations.

(2) Tools Associated with Targets

The survey asked respondents to link important tools to important targets. This was done to answer the question, "what tools are used to pursue specific targets?" Respondents were instructed to select from the 45 tools listed in the survey the three most important to their most important targets. This ties or correlates tool use with objectives. In addition, it excludes from consideration the tools that cities use to pursue their less important targets. This reduced list of tools are the ones that matter most to the achievement of important results. The tools that received the most mentions for each of the targets appear in Table IV-2.

Tools for Geographic Targets

Among the tools used to pursue geographic targets the most common is infrastructure improvements. Regardless of whether target is downtown redevelopment,

TABLE IV-2 TOOLS USED TO PURSUE VERY IMPORTANT TARGETS

	Infrastructure Improvements	Tax-Exempt Bonds for Private Development	Revolving Loan Funds	Marketing Strategy	Tax Abatement	Direct Loans to Private Business	Entrepreneurial Assistance	Advertising	Employee Training/ Retraining	Land Acquisition	Direct Cash Contribution to Project	Promotional Missions (domestic)	Strategic Planning
GEOGRAPHIC TARGETS													
Downtown Redevelopment	●	●								●			
Neighborhood Centers	●		●			●							
Waterfront Development	●	●								●			
Industrial Areas	●	●			●								
ENTREPRENEURIAL TARGETS													
High Tech Development	●	●		●									
Small Business Development			●			●	●						
Office Buildings	●	●			●								
Minority Business Development			●			●	●						
Community Development Corps.			●				●				●		
BUSINESS TARGETS													
Retain Existing Business	●	●	●										
Expand Existing Business	●	●	●										
Retool Existing Business		●	●			●							
Attract New Business		●		●				●					
Diversify Business Mix				●				●					●
OCCUPATIONAL TARGETS													
Routine Operations	●				●				●				
Precision Operations				●	●				●				
Research and Development	●			●				●					
Central Administration				●					●			●	
Entrepreneurship			●	●			●						
TOTAL	10	9	8	7	4	4	4	3	3	2	1	1	1

neighborhood centers, waterfront development, or industrial areas, cities see infrastructure as the key variable. No other tool enjoys the same level of popularity.

In cities where downtown redevelopment is a very important target, the tools used include tax-exempt bonds and land acquisition in addition to infrastructure improvements. This package of tools denotes a dynamic city undertaking capital facility improvements, acting as a land broker, and offering preferential financing arrangements with the intent of stimulating downtown redevelopment.

In cities that target neighborhood centers, infrastructure improvements are important also. However, the important companion tools are strictly financial--revolving loan funds and direct loans to private business. Given that neighborhood centers are primarily commercial developments, the city's role is one of setting a solid foundation and then providing direct financial assistance.

Waterfront development involves the same set of tools used for downtown redevelopment, further confirming the overlapping nature of the two targets. Cities improve the infrastructure, acquire land, and issue tax-exempt bonds.

To promote economic development in industrial areas, cities provide what is virtually standard issue in geographic targeting -- tax-exempt bonds and infrastructure improvements. The other element in the industrial development package is tax abatement. There is a longstanding debate as to whether tax concessions such as abatements influence private sector locational choices. In the absence of evidence to resolve the debate, cities continue to use tax abatements for industrial development.

Tools for Entrepreneurial Targets

Revolving loan funds and entrepreneurial assistance are the two tools that predominate when cities are pursuing entrepreneurial targets. The importance of these two tools underscores the difference between geographic and nongeographic orientations to economic development. Both of the tools involve the city in a direct relationship with a person as opposed to a place. Revolving loan funds are typically created to provide start-up capital to new small businesses. Entrepreneurial assistance usually involves management training for small business operators.

Both revolving loan funds and entrepreneurial assistance are the most important tools for three entrepreneurial targets: small business development, minority business development, and community development corporations. The link between minority business development and small business targeting is evidenced by the fact that the two targets share a third common tool: direct loans to private business. Thus, when cities consider small or minority business development a critical part of their economic development programs, the assistance takes the form of financial support and managerial assistance. For community development corporations, the third most frequently used tool is also financial -- direct cash contribution to a project.

The other entrepreneurial targets are essentially different. The tools used when high tech development is a very important target are marketing strategies, infrastructure improvements, and tax-exempt bonds. This suggests that the first step in high tech development is for the city to create an image of itself as high tech "ready." It reconfirms that readiness by making infrastructure improvements and by offering tax-exempt bonds for high tech development.

The package of tools important for office building development is the same as the package used for developing industrial areas: infrastructure improvements, tax-exempt bonds, and tax abatements. It appears that office building development is a relatively undifferentiated target. Whether the target is industrial areas or office buildings, the tools are the same.

Tools for Business Targets

In targeting business, cities rely upon two cost reduction tools: tax-exempt bonds and, to a lesser extent, revolving loan funds. Cities are clearly attempting to establish financial climates friendly to business. This benefits both existing businesses and relocating businesses.

To retain existing business, infrastructure improvements outpace efforts at cost reduction. If cities are trying to maintain their business base through the retention of existing firms, then they approach it as a capacity improvement issue. Infrastructure quality is the foundation, cost reduction is an important additional inducement. If, on the other hand, cities are hoping to establish a new business equilibrium through expansion, then the cost reduction tools become more prominent. To assist existing businesses with expansion, cities issue tax-exempt bonds and provide revolving loan funds. Infrastructure improvement is important once the financial commitment has been made.

Some cities help existing firms retool, that is, respond to and accomodate economic disruption or growth. City assistance for retooling is primarily financial. In fact, retooling is the one business target associated with the powerful financial tool of direct loans. In addition, cities use the popular revolving loan fund programs and their authority to issue tax-exempt bonds to assist in retooling.

Another means of establishing a new business equilibrium is to attract new firms to the city. Financial tools are less important in achieving this objective. Instead, cities develop marketing strategies and advertise. Once a firm's interest in a particular city is piqued, the city may then sweeten the pot by offering tax-exempt bonds. Initially however, businesses must be acquainted with the assets of the city. This is more sophisticated than simply advertising. Cities must sell themselves to potentially relocating business. Doing this requires an understanding of the local economy.

Diversification of the city's business mix also affects equilibrium. Cities attempt diversification through marketing, strategic planning, and advertising. Given this assortment of tools, it is apparent that cities perceive diversification as achieved through attracting relocating firms rather than the creation of indigenous new firms.

Occupational Targets

As noted in the dicussion of the relative importance of the various targets, cities are less likely to attempt occupational development than economic development activities directed toward places or types of business. For the subset of cities in which occupational targets are very important, the key tools are employee training/retraining and marketing strategy. In other words, occupational targeting is seen as both a labor and promotional matter.

Cities that target routine operations occupations use employee training/retraining, tax abatement, and infrastructure improvements. Targeting routine operations is akin to targeting industrial development. The substantive difference is that when routine operations are the focus, attention is paid to labor force training. When industrial areas are the focus, the issuance of tax-exempt bonds is paramount. This implies that if the same firm is considered a geographic target as opposed to an occupational target, a different emphasis in tool use results.

When precision operations are the target, cities address them through employee training/retraining, marketing strategy, and tax abatement. The difference between targeting routine operations and precision operations lies in replacing the use of infrastructure improvements with marketing strategy. It appears that cities attract precision operations occupations by marketing themselves.

The marketing aspect is especially important for research and development occupations. When these occupations are the focus, cities use marketing and advertising and infrastructure improvements. This approach is similar to the one used when cities target high tech development. The difference is that when occupations are the focus, the importance of tax-exempt bonds recedes and that of advertising emerges.

Targeting central administration involves both promotion and labor. When cities focus upon central administrative occupations, they use marketing strategies, employee training/retraining, and domestic promotional missions. It is interesting to note that central administration occupation targeting is not the same as office building targeting. Despite the similarity of the two targets, an entirely different set of tools is involved. Cities actively recruit central administrative occupations with domestic promotional missions.

The critical tool in targeting entrepreneurship occupations is, understandably, entrepreneurial assistance. In addition to entrepreneurial assistance, cities use revolving loan funds and marketing strategies. Targeting entrepreneurship involves the city in capacity improvement, cost reduction, and market expansion.

CHAPTER V

EXAMINING ECONOMIC DEVELOPMENT TARGETS

In Chapter III, the use patterns of economic development tools were disaggregated into categories. Doing so revealed important differences in tool use according to city population size, region, level of distress, and economic structure. Just as city characteristics were important explanations for tool usage, they are also helpful in sorting through the different economic development targets. Simply put, the objectives of the economic development process vary in different types of cities. Targets that are important to large cities, for example, may be of minor importance to small cities. To explore the variance, the clusters of city types that were introduced in Chapter III reappear in this chapter.

(1) City Population Size and Economic Development Targets

To determine whether city size plays a role in economic development targeting, the sample was divided into the same population groups as in Chapter III. They are: small cities (less than 50,000 population), small-mid cities (50,000 to 100,000), mid-large cities (100,000 to 200,000), and large cities (greater than 200,000). The number of cities responding to the targets question on the survey includes: 64 small cities, 113 small-mid cities, 73 mid-large cities, and 59 large cities. The economic development target figures broken down by city size appear in Table V-1. The figures refer to the percentage of respondents who indicated that a specific target was "very important" to their city.

Breaking down the sample unmasks the inherent variability within. For example, 22.5% report that neighborhood centers are very important targets in their economic development programs. Yet when that figure is broken down by city size, a very different picture emerges. In Table V-1, neighborhood centers are very important to 7.7% of the small cities, 15.3% of the small-mid cities, 20.3% of the mid-large cities, and 52.7% of the large cities. Neighborhood centers are considered very important targets in large cities. In other cases, the size-driven nature of a target is less obvious than it is with neighborhood centers. For example, 54.3% report that industrial area targets are "very important." This percentage remains fairly steady across all of the population groups. The importance placed on industrial areas is unconnected to population size.

TABLE V-1 TARGETS BY CITY SIZE, PERCENTAGE SAYING "VERY IMPORTANT"

	LARGE	MID-LARGE	SMALL-MID	SMALL
GEOGRAPHIC TARGETS				
Downtown Redevelopment	81.4	79.5	78.8	60.9
Neighborhood Centers	52.7	20.3	15.3	7.7
Waterfront Development	54.7	40.7	29.9	22.4
Industrial Areas	56.7	56.3	50.0	57.4
ENTREPRENEURIAL TARGETS				
High Tech Development	47.2	25.4	25.5	25.9
Small Business Development	70.7	47.2	47.1	44.3
Office Buildings	40.4	33.8	29.7	16.1
Minority Business Development	56.4	28.4	11.6	13.2
Community Development Corps..	29.1	12.1	4.8	9.8
BUSINESS TARGETS				
Retain Existing Business	74.6	66.2	65.5	63.1
Expand Existing Business	84.7	62.5	60.7	60.9
Retool Existing Business	26.9	22.6	13.8	20.7
Attract New Business	71.9	67.1	67.5	73.4
Diversify Business Mix	38.2	29.9	44.3	42.9
OCCUPATIONAL TARGETS				
Routine Operations	18.4	8.5	16.9	19.2
Precision Operations	18.0	13.6	16.0	17.3
Research and Development	43.1	22.4	30.3	22.6
Central Administration	35.4	15.3	21.7	15.1
Entrepreneurship	43.1	15.9	25.6	25.0

On average, identifying economic development targets is more important to large cities than to small cities. Given this general finding, the exceptions are interesting. Small cities place as much (or slightly more) importance as large cities on industrial areas, on attracting new business and diversifying the business mix, and on targeting routine operations occupations. For cities in the 50,000 to 200,000 range, the importance of the various targets typically falls within the parameters set by the small and large categories.

Large Cities

Large cities form the most distinct group of cities. Not only do they identify more targets, in most cases, a higher proportion of large cities find the targets very important. At a minimum, all of the targets are considered very important by at least 15% of the cities.

The targets that are very important to a majority of large cities are: expansion of existing business (84.7%), downtown redevelopment (81.4%), retention of existing business (74.6%), attraction of new business (71.9%), small business development (70.7%), industrial areas (56.7%), minority business development (56.4%), waterfront development (54.7%), and neighborhood centers (52.7%). The designation of half of the targets as very important implies that large cities have far-reaching and extremely active economic development programs.

Large cities are notable too in that a majority of them identify minority business development and neighborhood centers as very important targets. For the most part, these are not targets in other cities. The implication is that large cities are faced with an array of demands that require a broadening of the typical conception of economic development.

In addition, compared to other cities, large cities tend to target high tech development (47.2%) and research and development occupations (43.1%). Diversification, on the other hand, is less of a concern to large cities (38.2%) than it is to small (42.9%) and small-mid sized cities (44.3%).

Mid-Large Cities

The focus of the economic development effort narrows outside of large cities. Mid-large sized cities aim for about half of the targets that large cities do: downtown redevelopment (79.5%), attraction of new business (67.1%), retention (66.2%) and expansion (62.5%) of existing business, and industrial areas (56.3%). Slightly less than a majority of cities consider two targets very important: small business development (47.2%) and waterfront development (40.7%).

Other targets are not as attractive to mid-large cities as they are to large cities. In some cases such as office buildings (33.8%) and diversification of the business mix (29.9%), the decline in importance from large to mid-large cities is not very substantial. In other cases, e.g., neighborhood centers (20.3%), high tech development (25.4%), and minority business development (28.4%), the decline in importance is dramatic.

Looking at the relatively unimportant targets (targets that are evaluated as "very important" by less than 15% of the cities) reveals another distinction for the mid-large category: both routine and precision operations occupations are unimportant targets in these cities. This is indicative of a larger trend wherein mid-large cities fail to support occupational development. With one exception, mid-large cities consider each of the occupational targets less important than does any other city size group.

Small-Mid Cities

The targets of economic development in small-mid sized cities are the same as the mid-large cities: downtown redevelopment (78.8%), attraction of new business (67.5%), retention (65.5%) and expansion (60.7%) of existing business, and industrial areas (50.0%). Two other targets that are close to enjoying "very important" status are small business development (47.1%) and, unlike the mid-large cities that target waterfront development, diversification of the business mix (44.3%).

Several targets are considered very important by more than one-quarter of the group. These targets include research and development occupations (30.3%), waterfront development (29.9%), office buildings (29.7%), and entrepreneurship (25.6%), and high tech development (25.5%). Therefore, although the economic development agenda of small-mid size cities is not as extensive as it is in larger cities, it does have its distinctions. Two targets that are not on the agenda are minority business development and, like mid-large cities, community development corporations with very important percentages of 11.6 and 4.8, respectively.

Small Cities

Like small-mid size cities, a majority of small cities target the attraction of new business (73.4%), the retention (63.1%) and expansion (60.9%) of existing business, downtown development (60.9%), and industrial areas (57.4%). More small cities consider these targets very important than any of the others. As the discussion of larger cities indicated, this is a relatively standard group of targets. Two targets that approach majority importance status are small business development (44.3%) and diversification of the business mix (42.9%). Taken together, these seven targets can be said to comprise the economic development agenda of America's small cities. Only one other target (high tech development: 25.9%) is considered very important by more than one-quarter of the small cities.

Several targets are not particularly important to small cities. If a 15% "very important" figure is imposed as a boundary that separates the potentially important targets from the relatively unimportant ones, then three targets are not of much consequence to small cities. The three targets are minority business development (13.2%), community development corporations (9.8%), and neighborhood centers (7.7%).

(2) Region and Economic Development Targets

The regional divisions used in discussing economic development tools in Chapter III are reintroduced for targets. Responding to the questions on economic development targets were 21 New England cities, 21 Mid-Atlantic cities, 56 East North Central cities, 31 West North Central cities, 52 South Atlantic cities, 17 East South Central cities, 28 West South Central, 30 Mountain cities, and 53 Pacific cities. The data on the regional breakdown for the various targets appears in Table V-2. The numbers in the cells are the percentage of respondents indicating that a particular target is "very important" in their city.

TABLE V-2 TARGETS BY REGION, PERCENTAGE SAYING "VERY IMPORTANT"

	NEW ENGLAND	MID ATLANTIC	EAST NORTH CENTRAL	WEST NORTH CENTRAL	SOUTH ATLANTIC	EAST SOUTH CENTRAL	WEST SOUTH CENTRAL	MOUNTAIN	PACIFIC
GEOGRAPHIC TARGETS									
Downtown Redevelopment	71.4	81.0	75.0	74.2	82.7	82.4	57.1	73.3	79.2
Neighborhood Centers	21.1	45.0	26.0	11.1	17.0	12.5	12.5	14.8	36.4
Waterfront Development	50.0	41.2	28.3	26.9	48.8	35.3	45.8	0.0	43.2
Industrial Areas	66.7	55.0	65.0	60.0	43.8	70.6	53.8	46.7	41.7
ENTREPRENEURIAL TARGETS									
High Tech Development	31.3	28.6	29.6	25.0	32.6	40.0	20.8	41.9	22.0
Small Business Development	45.0	71.4	62.3	44.8	46.0	58.8	46.2	40.0	49.0
Office Buildings	27.8	50.0	28.6	23.3	41.7	26.7	4.2	21.4	37.2
Minority Business Development	6.3	47.4	27.7	21.4	30.0	35.7	16.0	16.0	23.9
Community Development Corps.	0.0	17.6	22.7	7.1	11.6	14.3	0.0	12.5	18.9
BUSINESS TARGETS									
Retain Existing Business	72.7	81.0	86.7	61.3	55.8	64.7	53.6	53.3	66.0
Expand Existing Business	66.7	85.7	83.1	67.7	52.0	64.7	57.1	60.0	58.0
Retool Existing Business	12.5	23.8	29.4	24.0	11.1	26.7	22.7	12.0	17.9
Attract New Business	57.9	45.0	68.9	77.4	76.5	88.2	63.0	80.6	62.7
Diversify Business Mix	17.6	28.6	45.5	33.3	32.0	31.3	50.0	51.7	46.8
OCCUPATIONAL TARGETS									
Routine Operations	0.0	16.7	11.4	19.2	17.8	35.7	13.6	4.5	21.6
Precision Operations	0.0	11.8	15.9	12.0	13.0	15.4	25.0	31.8	17.1
Research and Development	40.0	23.5	27.5	25.0	27.1	30.8	30.4	38.5	28.2
Central Administration	25.0	23.5	16.3	21.4	35.6	8.3	8.7	20.8	20.0
Entrepreneurship	6.7	27.8	29.8	22.2	29.8	30.8	29.2	40.7	15.8

In examining the interaction of region and economic development targeting, one conclusion is apparent. The significance of region depends on the target. Some targets such as research and development occupations experience a relatively constant level of importance regardless of region. For research and development occupations, the low is in the Mid-Atlantic area where 23.5% of the cities consider it a very important target, the high is in the New England region (40.0%). The range in the importance figures for the nine regions is less than 20 percentage points. For other targets such as minority business development, the range is much greater. For example, 6.3% of the New England cities consider minority businesss development a very important target. In cities in the Mid-Atlantic region, that figure is 47.4%. The range of importance for minority business development is over 40 percentage points. In the following sections, each of the regional divisions will be examined individually.

New England

In terms of what they consider very important targets, New England cities mirror the national trend. A majority are targeting the retention of existing business (72.7%), downtown redevelopment (71.4%), industrial areas (66.7%), the expansion of existing business (66.7%), and the attraction of new business (57.9%). However, New England cities veer from the national trend with regard to the low level of importance assigned to some of the other tools. For example, no New England cities consider community development corporations, routine operations occupations, or precision operations occupations very important targets. In addition, the importance of business diversification (17.6%), entrepreneurship (6.7%), and minority business development (6.3%), is substantially lower in this region.

Mid-Atlantic

Cities in the Mid-Atlantic are targeting the redevelopment of downtown (81.0%), the retention (81.0%) and expansion (85.7%) of existing business, and the development of small business (71.4%). These are fairly popular targets around the country, but among Mid-Atlantic cities they are especially popular. However, Mid-Atlantic cities outpace the national trend with three less popular targets: office buildings (50.0%), minority business development (47.4%), and neighborhood centers (45.0%). Their support of this mix of targets suggests that cities in the region are able to blend a downtown redevelopment strategy with a more diffuse neighborhood revitalization strategy. Support for existing firms and for small business and minority business development are important components of such an approach. It should be noted too that although cities in this region support the attraction of new business, the percentage that consider it a very important target (45.0%) is the lowest in the nation.

East North Central

The East North Central cities focus upon the same targets but often at a much higher rate than the national sample. The instances in which substantial variation (a difference of ten percentage points in either direction) occurs are instructive. Cities in this region place more importance on retention (86.7%) and expansion (83.1%) of existing business, on industrial areas (65.0%), on small business development (62.3%), and on community development corporations (22.7%) than the average city. While the first four of these targets are relatively conventional in that most cities target them, the last one, community development corporations is not. Almost one-quarter of the cities in the East North Central consider community development corporations to be very important. The implication is that cities in the region are more likely to work with indigenous, grassroots organizations to achieve economic development goals.

West North Central

The West North Central cities are a microcosm of the nation in terms of the importance of the different economic development targets. In only one instance, the targeting of neighborhood centers (11.1%), do the West North Central cities differ by ten percentage points or more from the national figures. (Fewer cities in the region find neighborhood centers a very important target.) The heart of the economic development effort in the West North Central is downtown redevelopment (74.2%) and industrial areas (60.0%), and in the retention (61.3%) and expansion (67.7%) of existing business, and the attraction of new business (77.4%). It is worth noting, however, that the attraction of new business is the highest priority target in the region.

South Atlantic

The economic development efforts in the South Atlantic cities are different from the national pattern in several ways. One difference is the absence of industrial areas (43.8%) from the targets that at least a majority of the cities in the region identify as "very important." Another differerence is in comparatively lower support for the retention (55.8%) and expansion (52.0%) of existing business. And another difference is the importance of central administrative occupations (35.6%) as targets. The region's distinctiveness is evident in a related finding as well. Unlike other regions in which small business development is a far more important target than office buildings, in the South Atlantic office buildings are valued at similar rates. Forty-six percent of the cities identify small business development as a very important target, 41.7% find office buildings very important.

East South Central

Attracting new business is the essential element of economic development targeting in the East South Central. Almost 90% of the cities consider the attraction of new business a very important economic development target. The other targets in which the East South Central cities lead are related: industrial areas (70.6%) and routine operations occupations (35.7%). These three targets form the basis for a coherent economic development policy. But the effort is not wholly focused on these targets. Compared to other regions, East South Central cities are targeting downtown redevelopment (82.4%), high tech development (40.0%), and minority business development (35.7%) at a high rate. This suggests a fairly diverse approach to economic development in the region.

West South Central

In West South Central cities, diversification of the business mix is very important (50.0%) in almost as many cities as is the retention (53.6%) and expansion (57.1%) of existing business. Proportionally, however, the levels of importance fall below those of the other regions. The general tendency in the West South Central is for fewer cities to accord "very important" designations to the targets. This is especially evident with community development corporations (0.0%), office buildings (4.2%), and central administrative occupations (8.7%). These targets are substantially less important in the West South

Central. The target considered very important by most cities in the region is attraction of new business (63.0%), followed by downtown redevelopment (57.1%) and expansion of existing business (57.1%).

Mountain

Economic development targeting in Mountain cities is unique. First of all, no cities find waterfront development a very important target. Second, they lead the other regions in support for four interrelated targets: diversification of the business mix (51.7%), high tech development (41.9%), entrepreneurship (40.7%), and precision operations occupations (31.8%). And, although a majority of cities in the region consider retention of existing business a very important target (53.3%), it is the lowest percentage among the regions. Attraction of new business, on the other hand, is the most favored target (80.6%) in the region. These findings suggest that an economic transformation of sorts is in process in cities in the Mountain region.

Pacific

Pacific cities are in the mold of cities in other regions in their targeting of downtown redevelopment (79.2%), and in their business attraction (62.7%), retention (66.0%) and expansion (58.0%) targeting. The divergence of the Pacific from other regions appears in the comparably low level of importance assigned to industrial area targets (41.7%) and in the relatively high degree of importance accorded neighborhood centers (36.4%). The core of the economic development effort is common, however. Seldom do Pacific region cities appear at the extremes in the importance they ascribe to the various economic development targets. Their targeting preferences are much more likely to resemble the national patterns.

(3) Level of Distress and Economic Development Targets

The issue of distress and its impact on economic development behavior was addressed in a previous chapter. Distress was found to be an important explanation for both the type and extent of tool use. It affects targeting as well. In this section, the comprehensive distress measure developed for the UDAG program is reintroduced. As noted earlier, this measure produces nine gradations of distress based on population growth, poverty, housing age, income growth, and employment factors.

The number of cities that answered the targeting questions on the survey and have UDAG distress scores are (in order of ascending distress): 18 cities in the least distressed category, 25 cities, 42 cities, 35 cities, 26 cities (in the midlevel distress group), 33 cities, 40 cities, 27 cities, and 34 cities in the most distressed category. Table V-3 displays the targeting figures by level of distress. The percentages refer to the proportion of the cities that identify the target as "very important."

As Table V-3 indicates, targets popular under other criteria remain popular, and unpopular ones lag. But the range in the level of importance for a given target can be extensive. The retention of existing business is a good example. Without much distortion of the fact, one can conclude that, regardless of distress level, cities find retention strategies very important to their economic development programs. The range in importance is broad: from 44.1% to 97.1%. Minority business development is targeted by fewer cities than is retention of business, but the range is just a broad: from 0.0% to 58.1%. And, in both of these cases, the distressed cities are placing more importance on these targets. A closer look at the relationship between distress and targeting is warranted.

The nine separate distress categories can be combined into composite groupings to facilitate the discussion. Three classifications result. The low distress grouping includes: columns 1 - 3 in Table V-3; the mid-level distress grouping is made up of columns 4 - 6; and the high distress cities includes columns 7 - 9.

TABLE V-3 TARGETS BY DISTRESS, PERCENTAGE SAYING "VERY IMPORTANT"

	LEAST DISTRESSED				MIDLEVEL DISTRESS				MOST DISTRESSED
	1	2	3	4	5	6	7	8	9
GEOGRAPHIC TARGETS									
Downtown Redevelopment	61.1	72.0	59.5	80.0	80.8	87.9	87.5	81.5	82.4
Neighborhood Centers	20.0	30.4	5.1	16.1	26.1	23.3	16.7	43.5	45.2
Waterfront Development	0.0	6.7	27.0	45.8	34.8	48.1	44.4	60.9	50.0
Industrial Areas	31.3	37.0	52.5	50.0	46.2	62.5	60.5	55.6	75.8
ENTREPRENEURIAL TARGETS									
High Tech Development	37.5	44.4	23.7	33.3	30.4	36.7	17.6	26.1	35.5
Small Business Development	23.5	42.3	37.5	38.2	48.0	63.3	59.5	76.9	63.6
Office Buildings	35.3	37.0	13.2	30.0	33.3	37.9	22.2	45.8	40.6
Minority Business Development	0.0	4.3	5.6	14.3	29.2	32.1	28.9	48.0	58.1
Community Development Corps.	0.0	5.9	12.5	8.0	17.4	17.9	0.0	20.0	28.6
BUSINESS TARGETS									
Retain Existing Business	44.4	57.7	52.3	44.1	66.7	66.7	84.6	70.4	97.1
Expand Existing Business	44.4	53.8	53.5	63.6	70.4	71.9	63.2	70.4	91.2
Retool Existing Business	7.1	9.5	17.6	21.7	4.8	22.6	20.6	22.7	34.4
Attract New Business	55.6	61.5	67.4	64.7	73.1	75.8	69.2	70.4	75.8
Diversify Business Mix	37.5	52.0	37.5	46.7	33.3	36.4	27.8	42.3	48.5
OCCUPATIONAL TARGETS									
Routine Operations	0.0	5.0	6.3	14.8	18.2	21.4	17.1	30.0	16.0
Precision Operations	0.0	25.0	6.3	33.3	14.3	10.7	17.6	10.0	15.4
Research and Development	23.1	39.1	22.5	28.6	37.5	29.6	33.3	19.0	33.3
Central Administration	30.8	28.6	9.1	12.0	30.4	37.0	20.6	20.0	17.4
Entrepreneurship	16.7	18.2	22.2	20.7	36.4	23.3	23.5	35.0	37.0

Low Distress Cities

Cities with low levels of distress tend to target downtown redevelopment, retention and expansion of existing business, and the attraction of new business. These are the only targets that a majority of low distress cities consider very important. Compared to cities with higher levels of distress, this is a small number of "very important" targets. And there are several targets that are not particularly important to low distress cities. Among the entrepreneurial targets, low distress cities are not focusing upon minority business development or community development. They are not retooling existing business or targeting routine or precision operations occupations.

Low distress cities, on average, place less importance on waterfront development and industrial areas than do higher distress cities. This is true for small business development and entrepreneurship as well. Low distress cities follow the national pattern with regard to the importance of the remaining targets. The overall pattern, however, is selective targeting. It bears emphasizing that low distress cities are desirous of remaining so.

Mid-Level Distress Cities

The increase in the overall importance of the targets is evident when one moves from the low distress cities to those in the mid-level distress categories. More mid-level distress cities identify downtown redevelopment as very important than low distress cities do. The same is true for the retention and expansion of existing business and attraction of new business. In addition, a majority of mid-level distress cities are targeting industrial area development.

Mid-level distress cities do not differ much from their less distressed counterparts in the importance attached to neighborhood centers, high tech development, diversification of the business mix, research and development occupations, and central administrative occupations. But it is apparent that cities facing mid-level distress conditions operate a more diverse economic development program than do less distressed cities. The targets that approximately one-third of the mid-level distress cities consider very important include: waterfront development, high tech development, office buildings, diversification of the business mix, and research and development occupations.

High Distress Cities

High distress cities identify the most targets. Three of the four geographic targets--downtown redevelopment, waterfront development, and industrial areas--are very important to a majority of high distress cities. The importance of business is indisputable, too. Well over a majority of high distress cities indicate that the retention and expansion of existing business, the attraction of new business, and the development of small business are very important targets. In general, distressed cities seem to have developed an extensive agenda for economic development.

The pursuit of other targets appears to be related to distress also. Minority business development is an example of this as are neighborhood centers. To a lesser extent, office buildings and retooling existing business exhibit some correlation with distress.

Distressed cities, despite their need for immediate economic improvement have not pursued all of the targets. Some targets seem to be unrelated to distress levels. For example, the pursuit of research and development occupations, high tech, and central administrative occupations does not vary much according to distress level. Generally, the tendency is for more highly distressed cities to identify more targets.

(4) Economic Structure and Economic Development Targets

Population size, region, and level of distress have all been shown to be related to the importance of economic development targets. Another characteristic that affects targeting decisions is the city's economic structure. As was done in Chapter III, cities with populations of 100,000 or more that responded to the targets question have been categorized by economic structure. There are 38 cities whose local economy is a microcosm of the nation's (the "national mix" cities), 21 retail cities, 16 manufacturing cities, 20 service cities, 18 government cities, 4 manufacturing/service cities, and 10 unclassified cities. Because there are so few cities in the manufacturing/service category and because the unclassified grouping has no substantive meaning, the figures associated with these two clusters will be excluded from the analysis. The breakdown of targets by economic structure appears in Table V-4. The figures indicate the percentage of cities in which the target is considered "very important." The data in Table V-4 are for a

TABLE V-4 TARGETS BY CITY ECONOMIC STRUCTURE, PERCENTAGE SAYING "VERY IMPORTANT"

	NATIONAL MIX	MANUFACTURING	RETAIL	SERVICE	GOVERNMENT
GEOGRAPHIC TARGETS					
Downtown Redevelopment	84.2	75.0	85.7	90.0	83.3
Neighborhood Centers	30.6	42.9	25.0	55.0	35.3
Waterfront Development	45.9	36.4	27.8	50.0	64.7
Industrial Areas	48.6	62.5	47.6	57.9	50.0
ENTREPRENEURIAL TARGETS					
High Tech Development	22.9	28.6	40.0	37.5	50.0
Small Business Development	59.5	73.3	42.9	63.2	47.4
Office Buildings	40.5	46.7	21.1	35.3	38.9
Minority Business Development	47.1	50.0	42.1	44.4	36.8
Community Development Corps.	21.2	16.7	0.0	40.0	18.8
BUSINESS TARGETS					
Retain Existing Business	73.0	86.7	42.9	65.0	68.4
Expand Existing Business	75.7	87.5	57.1	75.0	68.4
Retool Existing Business	25.0	16.7	15.8	36.8	12.5
Attract New Business	73.0	56.3	76.2	52.9	68.4
Diversify Business Mix	23.5	61.5	28.6	27.8	36.8
OCCUPATIONAL TARGETS					
Routine Operations	13.3	23.1	5.3	18.8	13.3
Precision Operations	16.1	16.7	15.8	18.8	12.5
Research and Development	32.3	33.3	31.6	23.5	27.8
Central Administration	19.4	27.3	22.2	18.8	42.9
Entrepreneurship	32.3	30.8	10.5	29.4	35.3

subset--cities with populations of 100,000 or more--of the original sample. Therefore, the numbers are not directly comparable to those in Table IV-1. From the discussion of city size and targeting, it is evident that cities with larger populations tend to identify more targets than smaller cities.

The importance of the different targets fluctuates across economic structures. While some targets such as downtown development are important regardless of the local economic structure, the significance of others like small business development varies. This suggests that cities, cognizant of their economic base, have designed economic development programs to accomodate that base.

National Mix Cities

Cities with populations of 100,000 or more that have employment patterns similar to the national pattern identify five very important targets: downtown redevelopment (84.2%), expansion of existing business (75.7%), retention of existing business (73.0%), attraction of new business (73.0%), and small business development (59.5%). Industrial areas (48.6%), minority business development (47.1%), and waterfront development (45.9%) are three other targets that are considered very important by almost a majority of national mix cities.

There is very little emphasis on diversification (23.5%), no doubt reflecting the balance that exists in the local economy. National mix cities, like others, do not approach the targeting issue from the perspective of occupations. When they do, the occupational targets considered most important are research and development (32.3%) and entrepreneurship (32.3%).

Manufacturing Cities

Manufacturing cities have seven major targets: the expansion (87.5%) and retention (86.7%) of existing business, small business development (73.3%), downtown redevelopment (75.0%), industrial areas (62.5%), diversification of the business mix (61.5%) and attraction of new business (56.3%). Just as retail cities are focused, manufacturing cities are diffused. The comprehensive nature of economic development programs in manufacturing cities is evident in that they include geographic, entrepreneurial, and business targets.

Two other entrepreneurial targets considered very important by a near majority are minority business development (50.0%) and office buildings (46.7%). Again, this highlights the diverse manner in which manufacturing cities tackle economic development.

Retail Cities

The targeting that occurs in retail cities is characterized as heavy emphasis on downtown redevelopment (85.7%) and attraction of new business (76.2%). There is a tremendous concentration of effort in these two endeavors. Only one other target, the expansion of existing business (57.1%), is considered very important by a majority of retail cities.

Compared to any other single group, retail cities tend to attach lesser importance to the targets--across the board. Retail cities attach the lowest proportion of importance to three of the four geographic targets. The same is true for most of the entrepreneurial targets, also. Retail cities are concentrating their efforts on a specific set of targets.

Service Cities

Like manufacturing cities, service cities identify seven targets as very important. Six of these targets are the same ones favored by manufacturing cities. The point at which they differ underscores the essential distinction between the two groups of cities. While a strong majority of manufacturing cities are targeting diversification of the business mix, only 27.8% of the service cities consider it very important. Instead, a majority (55.0%) of service cities select neighborhood centers as a very important target of their economic development efforts. As a corollary, 40.0% of the service cities consider community development corporations very important.

Service cities are very active in promoting economic development. Yet like the other types of cities, they are not particularly oriented toward economic development as occupational targeting.

Government Cities

Economic development targeting in government cities is distinctive. Government cities embrace downtown redevelopment (83.3%) and the retention (68.4%), expansion (68.4%), and attraction (68.4%) of business like so many other cities do. However, where they vary is in the next tier of targets. One is waterfront development (64.7%); another is high tech development (50.0%); and a third is central administration (42.9%). The high proportion of local employment in government seems to be linked to a relatively unique set of targets.

Government cities place an average amount of importance on the remaining targets. It is in waterfront development and, logically, high tech development and central administrative occupations that government cities see the future.

CHAPTER VI

KEY TOOLS: PURPOSE AND PRACTICE IN ECONOMIC DEVELOPMENT

The preceding chapters explored the mechanics of city economic development: the use of tools and the importance of targets. This chapter reassembles some of the earlier data but with two shifts in perspective. In the first part of the chapter, the focus is shifted from city characteristics to the tools themselves. This section identifies the tools most relied upon and examines the types of cities associated with their use.

But, by identifying the tools that cities have relied upon the most, have we really isolated the key tools in economic development? This issue is the focus of the second part of the chapter. The purposive use of tools (that is, in pursuit of targets) is compared to tool reliance. Approaching the issue from this perspective will provide a fuller understanding of the role that tools and targets play in the city economic development process.

(1) Tools and City Characteristics

In an earlier chapter, the data on tool use were sorted out according to city population size, region, level of distress, and economic structure. It became apparent that these city characteristics affected tool choice and reliance. Large and small cities behave differently, as do cities on the East and West coasts. Cities with distressed conditions approach the economic development issue differently than do their more fortunate counterparts. Manufacturing cities are different from service cities, from retail cities, and so on. What this vertical slice of data emphasized then, was the way city type affected the use of economic development tools.

What the data display muffled was the way the tools themselves are affected by the different categories. Exploring this aspect requires a horizontal slice of data. In other words, the question of interest shifts from "how do different types of cities behave?" to "how do the tools fare from one city type to another?"

To pursue this line of inquiry, the analysis returns to Table II-1 and selects the tools that were the most extensively used in 1986. Establishing a "used extensively by are

TABLE V1-1 1986 MOST EXTENSIVELY USED TOOLS BY CITY SIZE

	TOTAL SAMPLE	LARGE	MID-LARGE	SMALL-MID	SMALL
Infrastructure Improvement	47.5	62.3	52.7	45.4	33.3
Issuance of Tax-Exempt Bonds	34.2	59.0	39.2	26.1	22.7
Marketing Strategy	29.5	42.6	35.1	18.5	31.8
Strategic Planning	27.0	39.3	27.0	23.5	21.2
Employee Training/Retraining	26.4	50.8	35.1	14.3	16.7
Revolving Loan Funds	26.4	45.9	35.1	18.5	13.6

TABLE V1-2 1986 MOST EXTENSIVELY USED TOOLS BY REGION

	TOTAL SAMPLE	NEW ENGLAND	MID ATLANTIC	EAST NORTH CENTRAL	WEST NORTH CENTRAL	SOUTH ATLANTIC	EAST SOUTH CENTRAL	WEST SOUTH CENTRAL	MOUNTAIN	PACIFIC
Infrastructure Improvement	47.5	45.5	45.5	54.1	53.1	50.9	47.1	53.6	32.3	42.6
Issuance of Tax-Exempt Bonds	34.2	31.8	54.5	36.1	46.9	34.0	41.2	39.3	35.5	14.8
Marketing Strategy	29.5	22.7	36.4	32.8	31.3	28.3	41.2	25.0	38.7	20.4
Strategic Planning	27.0	22.7	36.4	26.2	40.6	22.6	41.2	17.9	29.0	20.4
Employee Training/Retraining	26.4	45.5	40.9	21.3	21.9	26.4	23.5	28.6	29.0	20.4
Revolving Loan Funds	26.4	31.8	50.0	37.7	21.9	22.6	23.5	14.3	16.1	22.2

TABLE VI-3 1986 MOST EXTENSIVELY USED TOOLS BY LEVEL OF DISTRESS

	TOTAL SAMPLE	LEAST DISTRESSED				MID LEVEL DISTRESS				MOST DISTRESSED
		1	2	3	4	5	6	7	8	9
Infrastructure Improvement	47.5	38.9	35.7	45.7	47.2	48.1	69.7	50.0	55.6	62.9
Issuance of Tax-Exempt Bonds	34.2	16.7	32.1	32.6	27.8	33.3	36.4	52.5	48.1	45.7
Marketing Strategy	29.5	27.8	14.3	17.4	36.1	22.2	27.3	37.5	44.4	45.7
Strategic Planning	27.0	27.8	25.0	30.4	22.2	25.9	24.2	25.0	44.4	34.3
Employee Training/Retraining	26.4	5.6	14.3	13.0	25.0	25.9	39.4	42.5	44.4	34.3
Revolving Loan Funds	26.4	0.0	14.3	8.7	13.9	22.2	33.3	47.5	48.1	60.0

TABLE V1-4 1986 MOST EXTENSIVELY USED TOOLS BY CITY ECONOMIC STRUCTURE

	NATIONAL MIX	RETAIL	MANUFACTURING	SERVICE	GOVERNMENT
Infrastructure Improvement	64.1	52.4	68.8	60.0	52.6
Issuance of Tax-Exempt Bonds	66.7	28.6	37.5	45.0	47.4
Marketing Strategy	38.5	19.0	37.5	45.0	47.4
Strategic Planning	38.5	19.0	25.0	40.0	31.6
Employee Training/Retraining	41.0	33.3	50.0	70.0	36.8
Revolving Loan Funds	51.3	19.0	43.8	55.0	36.8

presented one-quarter of the cities" criterion for inclusion in this analysis generates six tools. This subset of tools can legitimately be considered the most relied upon instruments in city economic development during the past year. The six tools include infrastructure improvements, the issuance of tax-exempt bonds, marketing strategy, strategic planning, employee training/retraining, and revolving loan funds. More cities used these tools more extensively than any of the others. These tools and their associated city characteristics in a series of tables. These tables are organized by city population size (Table VI-1), region (Table VI-2), level of distress (Table VI-3), and economic structure (Table VI-4).

Infrastructure Improvements

Infrastructure improvements were the most heavily relied upon tool in 1986. In the aggregate, 47.5% of the cities report extensive use of infrastructure improvements. Generally, it is the most important capacity improvement tool in a city's arsenal. Yet not all cities embraced the tool with the same fervor. Compared to other places, small cities (Table VI-1), cities in the Mountain region (Table VI-2), and cities with lower levels of distress (Table VI-3) rely to a lesser degree on infrastructure improvements. Exhibiting a much greater reliance on infrastructure improvements are large cities, cities in the East North Central, West South Central, and West North Central regions, and high distress cities. In looking at the economic structures of cities over 100,000 population (Table VI-4), infrastructure improvements are relied upon by manufacturing cities to a greater extent than by retail or government cities.

Tax-exempt Bonds

Approximately one-third of the overall sample report using tax-exempt bonds extensively in 1986. The use of tax-exempt bonds is positively correlated with city size: the larger the population, the greater the use of tax-exempt bonds. As for region, the reliance is fairly stable in seven areas of the nation, but in the Mid-Atlantic and the Pacific regions, the stability is undone. In the Mid-Atlantic, 54.5% of the cities report using tax-exempt bonds extensively; for the Pacific area cities, the corresponding figure is 14.8%. The relationship of distress and tax-exempt bonds is less clear cut than with city size, but the tendency is for cities with greater distress to rely more heavily on tax-exempt bonds than lesser distressed cities. Tax-exempt bonds seem to be more the province of cities with economies similar to the national economy than of cities with more specialized economies.

Marketing Strategy

The only market expansion tool among the top six tools is marketing strategy. Almost 30% of the cities indicate that they used marketing strategies extensively during 1986. When the data are broken down by city type, it is evident that large cities, cities in the East South Central, and highly distressed cities are much more likely to utilize marketing strategies than any other types of cities. City size is somewhat problematic however, because small cities and mid-large cities are using marketing strategies at virtually the same rate. Cities less likely to rely on marketing strategies include small-mid sized cities, Pacific area and New England cities, and less distressed cities. Marketing strategies are more heavily relied upon in cities with a strong government or service focus. In retail cities, on the other hand, marketing strategies are far less popular.

Strategic Planning

Twenty seven percent of the cities used strategic planning (a mechanism by which a city assesses its local economy and designs an intervention strategy) extensively in 1986. This percentage is somewhat inflated by the use that large cities (39.3%) make of the tool. No other city size category uses the tool at a rate higher than 27%. Strategic planning is especially popular with cities in the East South Central and West North Central regions of the country. It is distinctly less popular in the West South Central and Pacific regions. There is a tendency for the two most distressed groups of cities to use strategic planning extensively, but among the other distress groups, the use of the tool is relatively constant. Cities with service or national mix economies use strategic planning at a greater rate than do retail cities.

Employee Training/Retraining

Approximately one-quarter of the total sample conducted extensive employee training/retraining programs in 1986. This aggregate figure masks the tremendous variation that occurs across city population groups and across economic structures. While over 50% of the large cities were conducting these programs, only about 15% of the two small city groups were doing so. In terms of economic structure, employee training/retraining is used at twice the rate in service-economy cities (70%) than in retail cities (33.3%). There is much less regional variation in the use of this tool. Two regions, New England and the Mid-Atlantic, outpace the rest of the country in their use of employee training/retraining. The other regions use the tool at roughly the aggregate rate. Employee training/retraining is used at a greater rate among distressed cities than it is among the lesser distressed.

Revolving Loan Funds

The proportion of cities using revolving loans funds is similar to the proportion using employee training/retraining programs. The same tendency for disparate use among city size groups occurs. Among large cities, 45.9% use revolving loan funds extensively, among small cities the proportion is 13.6%. Unlike the other tools, with revolving loan funds, the variation continues through all the city characteristics. Mid-Atlantic cities use revolving loan funds at a rate more than three times as great as the West South Central cities. None of the least distressed group of cities report using the tool extensively while 60% of the most distressed cities do. And although the high to low range is extreme across economic structure groups, with the exception of retail cities the groups tend toward consistency.

(2) A Reexamination of Tool Use: Reliance and Purpose

The relative importance of economic development tools remains a matter of serious debate. In Chapter II, economic development tool use was presented in terms of popularity (the percentage of cities using a tool) and reliance (the extensiveness of tool use). The use of tools was not related to any objective outcome. Chapter IV addressed that issue with a discussion of the "purposive" use of tools. The remainder of this chapter links the discussion of Chapters II and IV. Tool scores, based on purposive use, are calculated and compared to the "reliance" percentages.

In Chapter IV, respondents were asked to indicate the three most important tools (from the list provided in the survey) used to pursue "very important" targets. The result, displayed in Table IV-2, indicated which tools were critical for achieving which objectives. Each of the "very important" targets has three tools associated with it. To compute a score, each of the 13 tools that appears in the table is assigned one point each time it is listed. (The maximum number of times any one tool could appear in the list is 19. This, of course, did not occur. No single tool is so dominant that it is very important for every target. Cities have more diversified approaches.) The number of points a tool receives divided by the maximum possible gives us the score for the tool. The list of tools and their scores appears in Table VI-5.

The two top scoring purposive tools are also the tools that, in Chapter II (and in the preceding section of this chapter), were the tools cities relied upon the most. Regardless of whether the focus is upon tool use in the abstract or tool use linked to targets, the two top tools are infrastructure improvements and issuance of tax-exempt bonds for private development. Infrastructure has a score of .53, indicating that it is an important tool for pursuing over half of the targets. The .53 score correlates closely with its 1986 extensive use rate of 47.5%. Tax-exempt bonds follow closely. Their score is .47 which means that it was used in pursuing almost half of the targets. The score is related, although not as precisely as infrastructure was, to its 1986 extensive usage rate (34.2%). This finding reinforces the earlier contention that infrastructure improvements and tax-exempt bonds are the cornerstones of the local economic development effort.

When put in the context of specific targets, revolving loan funds increase in importance compared to their evaluation in the abstract. Their score in Table VI-5 is .42, indicating that they are the third most critical tool for use with specific economic development targets. Compare that to their use rate in total sample columns in Tables VI-1. Revolving loan funds barely made the "extensively used by one-quarter of the sample" cut-off point in the preceding section. The importance of revolving loan funds is more clearly understood when tied to a specific economic development objective.

The tool with the fourth highest score (.32) in Table VI-5 is marketing strategy. Marketing strategies are linked to the pursuit of one-third of the economic development targets. This score compares favorably with the proportion of cities (29.5%) that report using the tool extensively in 1986. This suggests that marketing strategies occupy a significant place in a city's economic development program.

TABLE V1-5 SCORES FOR TOOLS RELATED TO TARGETS

TOOLS	SCORE
Infrastructure Improvements	.53
Issuance of Tax-Exempt Bonds For Private Development	.47
Revolving Loan Funds	.42
Marketing Strategy	.32
Tax Abatement	.21
Entrepreneurial Assistance	.21
Employee Training/Retraining	.16
Advertising	.16
Direct Loans to Private Business	.16
Land Acquisition	.11
Strategic Planning	.05
Promotional Missions (domestic)	.05
Direct Cash Contribution to Project	.05

The two remaining tools that were used most extensively in 1986, strategic planning (27.0%) and employee training/retraining (26.4%), diminish in importance when related to targets. Strategic planning has a score of .05 while employee training/ retraining scores .16. This suggests that the use of these two tools is less directly tied to the attainment of objectives. Strategic planning is a process that appears to stand on its own rather than being a means to an end. The explanation for the comparatively low score for employee training/retraining is less apparent, but the implication is that despite its popularity, it is not a central focus of city economic development strategies. Its purposive score (.16) is the same as that for advertising and direct loans to private business.

Other tools that are tied to targets are tax abatement (.21) and entrepreneurial assistance (.21). While their scores are at the mid-range, the scores are higher than one would have anticipated from looking at the 1986 extensive use rates. Although these tools are not as popular generally or relied upon as extensively as some others, they appear to be fairly important to the achievement of objectives.

One can conclude, beyond a shadow of a doubt, that the two leading tools of the local economic development effort are infrastructure improvements and the issuance of tax-exempt bonds for private development. No matter how use is measured -- by popularity, by reliance, or by purposiveness -- these two tools are at the top of the list. A city creates an environment for growth by supplying and maintaining infrastructure, and it intervenes in the local economy to attract new firms and support existing business by providing preferential financial arrangements.

Identifying the cluster of tools that accompany infrastructure and tax-exempt bonds depends upon the nature of the inquiry. If one were to examine the economic development activities of cities across the nation, one would find cities adopting marketing strategies, engaging in strategic planning, conducting employee training/retraining programs, and creating revolving loan funds. Cities are pursuing a mixed approach to economic development. They are using cost reduction tools, capacity improvement tools, and market expansion tools.

When the focus shifts to the tools that, along with infrastructure improvements and the issuance of tax-exempt bonds, are the most important for achieving economic development objectives, a slightly different group emerges. Joining revolving loan funds and marketing strategy are tax abatement and entrepreneurial assistance. Given a specific objective, the importance of any one tool (other than infrastructure and tax-exempt bonds) is less predictable. Simply because a tool is popular does not mean that it will help in the achievement of a specific objective.

Cities are faced with tremendous economic development challenges in the waning years of the 1980s. Choices made now will effectively determine a city's role in the twenty first century. Cities must carefully make three choices. The first is their level of involvement in the local economy -- whether it will be direct or indirect, extensive or occasional. Second, cities must identify the goals and objectives of their economic development process. Third, and related to the other choices, cities must assemble a package of economic development tools that will help them achieve the preferred level of involvement and the selected set of outcomes. This report, with its data on various measures of tool use and targets, and their relationship to city type, provides the knowledge base for making these choices.

APPENDIX A

THE RESEARCH PROCESS AND THE SAMPLE

The tools and targets data are part of a larger economic development study conducted by the National League of Cities during 1986-87. One portion of the study was the survey that generated the data reported here.

In January 1987, the survey was sent to 431 cities. Postcard reminders were mailed out three weeks later. A second mailing of the questionnaire went to nonrespondents six weeks after the initial mailing. Three hundred twenty-two usable questionnaires were received in time to be included in the analysis. This represents a response rate of 75%. The survey went to cities with populations of 100,000 or more, NLC member cities with populations between 50,000 and 100,000, and a selected sample of NLC member cities with populations below 50,000. The response rate for these three population groups was 79%, 74%, and 69%, respectively. Twenty-nine of the thirty largest cities in the country responded to the survey.

The survey was sent to the mayor with the request that it be routed to the staff person most knowledgeable about economic development. Typically, the questionnaire ended up in the hands of an economic development professional in a city department of economic development (the official name of the bureaucratic unit varies). Because the responsibility for economic development can be spread across several departments, in some instances the completed questionnaire was the product of two or more staff members in one or more departments.

APPENDIX B

CITIES RESPONDING TO THE SURVEY

ALABAMA

Birmingham
Dothan
Gadsden
Huntsville
Mobile

ALASKA

Anchorage

ARIZONA

Glendale
Mesa
Phoenix
Scottsdale
Tempe
Tucson

ARKANSAS

Fayetteville
Fort Smith
Little Rock

CALIFORNIA

Alhambra
Antioch
Bellflower
Berkeley
Buena Park
Burbank
Carson
Cerritos
Compton
Concord
Garden Grove
Gardena
Glendale
Hawthorne
Hayward
Inglewood
Irvine
La Mirada
Lakewood
Los Angeles
Modesto
Montebello
Mountain View
Oakland
Oxnard
Palo Alto
Rancho Cucamonga
Redding
Redwood City
Richmond
Riverside
Sacramento
San Diego
San Jose
San Leandro
San Mateo
Santa Ana
Santa Barbara
Santa Cruz
Santa Monica
Santa Rosa
Simi Valley
Stockton
Sunnyvale
Thousand Oaks
Vallejo
West Covina

COLORADO

Arvada
Aurora
Boulder
Colorado Springs
Denver
Fort Collins
Greeley
Lakewood
Longmont
Pueblo
Thornton
Westminster

CONNECTICUT

Bridgeport
Enfield
Fairfield
Manchester
New Haven
Norwalk
Stamford
Waterbury
West Haven

DISTRICT OF COLUMBIA

Washington, D.C.

DELAWARE

Dover
Newark

FLORIDA

Clearwater
Coral Gables
Daytona Beach
Gainesville
Hollywood
Jacksonville
Melbourne
Miami
Miami Beach
North Miami
Orlando
Sarasota
St. Petersburg
Tampa
West Palm Beach

GEORGIA

Athens
Atlanta
Columbus
Macon
Savannah

HAWAII

Honolulu

IDAHO

Boise
Nampa
Pocatello

ILLINOIS

Arlington Heights
Champaign
Chicago
Decatur
Des Plaines
Downers Grove
Joliet
Moline
Oak Lawn
Peoria
Quincy
Rock Island
Rockford
Skokie
Springfield

INDIANA

Elkhart
Evansville
Gary
Indianapolis
Kokomo
Muncie
Richmond
South Bend

IOWA

Ames
Cedar Rapids
Davenport
Des Moines
Iowa City
Sioux City
Waterloo

KANSAS

Kansas City
Lawrence
Overland Park
Topeka
Wichita

KENTUCKY

Covington
Louisville
Owensboro

LOUISIANA

Baton Rouge
Lafayette
Lake Charles
Monroe
New Orleans

MAINE

Augusta
Bangor
Lewiston
Portland

MARYLAND

Annapolis
Baltimore
Frederick
Rockville

MASSACHUSETTS

Arlington
Boston
Springfield
Worcester

MICHIGAN

Battle Creek
Dearborn
Dearborn Heights
Detroit
East Lansing
Farmington Hills
Flint
Grand Rapids
Lansing
Lincoln Park
Livonia
Pontiac
Saginaw
Southfield
Sterling Heights
Warren

MINNESOTA

Bloomington
Brooklyn Park
Duluth
Minneapolis
Rochester
St. Louis Park
St. Paul

MISSISSIPPI

Biloxi
Hattiesburg
Jackson
Meridian

MISSOURI

Columbia
Independence
Kansas City
Springfield
St. Louis
University City

MONTANA

Billings
Butte
Great Falls

NEBRASKA

Lincoln
North Platte
Omaha

NEVADA

North Las Vegas
Reno

NEW HAMPSHIRE

Manchester

NEW JERSEY

Jersey City
Newark
Plainfield
Trenton

NEW MEXICO

Albuquerque
Las Cruces
Santa Fe

NEW YORK

Albany
Buffalo
New York
Rochester
Schenectady
Syracuse
White Plains

NORTH CAROLINA

Asheville
Charlotte
Durham
Gastonia
Greensboro
High Point
Raleigh
Winston-Salem

NORTH DAKOTA

Fargo

OHIO

Akron
Canton
Cincinatti
Cleveland
Columbus
Cuyahoga Falls
Dayton
Elyria
Euclid
Kettering
Lakewood
Mentor
Middletown
Newark
Springfield
Toledo
Youngstown

OKLAHOMA

Oklahoma City
Tulsa

OREGON

Corvallis
Portland
Salem

PENNSYLVANIA

Allentown
Lancaster
Philadelphia
Pittsburgh
Reading
Scranton
York

RHODE ISLAND

Cranston
Providence
Warwick

SOUTH CAROLINA

Charleston
Columbia
Greenville
North Charleston
Spartanburg

SOUTH DAKOTA

Aberdeen
Rapid City
Sioux Falls

TENNESSEE

Chattanooga
Clarksville
Knoxville

TENNESSEE

Memphis
Nashville

TEXAS

Abilene
Amarillo
Austin
Baytown
Beaumont
Carrollton
Corpus Christi
Dallas
Denton
El Paso
Garland
Grand Prairie
Houston
Longview
Lubbock
Plano
Port Arthur
San Antonio
Tyler
Waco
Wichita Falls

UTAH

Orem
Provo
Sandy City
West Valley City

VERMONT

Burlington

VIRGINIA

Alexandria
Chesapeake
Danville
Hampton
Lynchburg
Newport News
Norfolk
Portsmouth
Richmond
Roanoke
Suffolk
Virginia Beach

WASHINGTON

Bellevue
Seattle
Spokane
Tacoma
Vancouver

WEST VIRGINIA

Charleston
Huntington

WISCONSIN

Eau Claire
Green Bay
Milwaukee
Waukesha
West Allis

WYOMING

Casper
Cheyenne

---

*The number of cities responding to the survey is 327. In five cases however, the surveys were received too late to be included in the data analysis. The discussion in this report is based upon the responses of 322 cities.

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The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and more than 1,300 cities directly and, through the membership of the state municipal leagues, more than 16,000 cities indirectly.

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THE EFFECTS OF THE 1986 TAX REFORM ACT ON CITY FINANCES

An Appraisal of Year One

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THE EFFECTS OF THE 1986 TAX REFORM ACT ON CITY FINANCES

An Appraisal of Year One

By

Dr. Michael A. Pagano
Miami University

December 1987

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PREFACE

This report provides an initial indication of the effects that the 1986 Tax Reform Act is having on municipalities' finances. Less than a year after TRA was enacted (the survey was done in June 1987), significant proportions of city finance officers reported that reductions in capital and operating budgets were likely as a result of the tax code changes. Coupled with further reductions in federal aid, this is a notable and not at all welcome effect.

To help cities trace the indirect effects of TRA on their local economies, NLC has also published *Your City's 1040*, an analysis and guidebook for city officials. NLC will continue to speak on behalf of the nation's municipal governments regarding their treatment in the federal tax code and will also continue to provide research and services that help city officials understand and cope with the not always salutary results of that treatment.

We want to thank and commend Dr. Michael A. Pagano for his work on this monitoring study. He was NLC's Lincoln Fellow for 1985-1986, and we are pleased to resume an affiliation with him in this report and our planned continuation of it in subsequent years.

Alan Beals
Executive Director

William E. Davis, III
Director,
Office of Policy Analysis and Development

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Dr. Michael A. Pagano

EXECUTIVE SUMMARY

THE EFFECTS OF THE 1986 TAX REFORM ACT ON CITY FINANCES

An Appraisal of Year One

Michael A. Pagano
Miami University

National League of Cities
December 1987

City fiscal conditions have been altered significantly in the last two years due to the effects of both a substantial reduction in federal grants to cities and the Tax Reform Act of 1986 (TRA). This is a study of the impacts of TRA. Cities' fiscal policy responses to the TRA in the first year after its implementation are varied. Some cities have yet to respond and others have already adjusted their programs and policies. The majority, however, are in the process of deciding what to do. Although it will take several years before cities fully adjust to all the features of the TRA, three major findings can be drawn from this study on the impacts of tax reform on American cities:

1. Although cities in general have not opted to take draconian measures in dealing with tax reform, 45 percent responded that their **capital budgets** would be reduced. The**operating budgets** of 27 percent of the cities will be reduced.

2. Nearly three-fourths of all cities have altered their **capital and debt policies and procedures** as a result of TRA.

   Most will scrutinize projects more closely in order to be in compliance with the 10 percent rule. Administrative costs and paperwork are expected to increase or already have increased. Nearly one-fourth of all cities expect to reduce their debt volume.

3. **Economic development** programs will generally be affected adversely by tax reform. Industrial development bonds, tax increment financing, stadium and convention center projects, and equity participation will be altered in nearly half to four-fifths of the cities.

Other findings of this study include the following:

4. The impacts of tax reform are not confined to anyone **region** of the country; they are felt everywhere. Cities nationwide are altering their fiscal policies.

5. Shifting more costs to developers is an option that will probably be adopted in more than 40 percent of the cities as a result of TRA.

6. Most finance officers did not believe that the value of property in their cities would be adversely affected by tax reform. The **value of rental properties** in cities, however, is expected to decrease in nearly one-fourth of U.S. cities.

7. Cities that levy a **sales tax** – a local tax that is no longer deductible from federal income tax liabilities – are not contemplating a switch from the sales tax to other taxes, such as the income or property tax, that are still deductible.

I. PURPOSE OF THE STUDY

The purpose of this report is to provide evidence of local government responses to the Tax Reform Act of 1986 (TRA) during Year One (1987). This study identifies and analyzes the actions cities will take, have taken, or are likely to take this year as a result of TRA in their operating and capital budgets, debt policies, cooperative arrangements with other public and private parties, fiscal policies, and economic development programs.

Information on probable city actions was collected from a survey administered to finance officers or budget directors in all cities with populations greater than 50,000. Of the 434 cities with populations greater than 50,000, surveys were returned from 234, a response rate of 54 percent. The four major Census regions of the country were well represented in the survey.

II. INTRODUCTION

The year 1986 marked a watershed for cities. In October of that year Congress, under considerable pressure from the Reagan Administration, passed the most comprehensive revision of the federal tax code in 30 years. Many of the revisions were expected to have an adverse impact on city finances. Passage of the Tax Reform Act of 1986 (TRA) was accomplished precisely at the same time as federal aid to cities was being drastically reduced. The President's proposed budget for fiscal year 1987 called for the termination of General Revenue Sharing, a proposal agreed to in the final congressional appropriation. Likewise, the administration proposed the elimination of the Urban Development Action Grant program in its fiscal year 1987 budget, while Congress approved a 29 percent cut. The Community Development Block Grant program fared somewhat better, with the administration calling for a 16 percent cut and Congress approving no change. In addition, the President's proposed fiscal year 1987 budget requested a phase out of Municipal Wastewater Treatment grants, a 67 percent cut in Assisted Housing, and a 16 percent cut in Job Training Partnership Act funds.

Approval of a reduced federal presence in financing these city programs coincided with final passage of a radical restructuring of the federal tax code. Significant and substantial reductions in federal aid to cities, coupled with a new tax code, certainly painted a rather inauspicious beginning, or at best a problematic fiscal situation, for city finances in 1987.

TRA was expected to alter not only individual and business finances, but state and local public finances as well. For example, reducing the number of deductions and tax expenditures would expand the income tax base, and public coffers would reap the benefits. Lengthening depreciation schedules would make capital construction and equipment purchases less lucrative; it might even dampen the construction industry. Redefining "tax-exempt" bonds might make them less attractive to potential purchasers and might increase the costs to state and local governments. Abolishing the deductibility of sales tax might induce itemizers to demand a shift in the city's or state's tax structure. The list of plausible impacts is substantial.

Each prediction about individual, business, or government response to TRA is premised on assumptions about the effect of elements of the tax code on behavior. If each element of the new tax code is analyzed individually, and if each element could be implemented one at a time, those assumptions may hold. However, when literally thousands of changes in the tax code are implemented simultaneously, the responses become far less predictable. For example, if the new income tax brackets could be implemented alone, we might expect an increase in personal consumption and savings (and investment). But, if we now allow for some savings to be taxed (e.g., Individual Retirement Accounts) for some individuals, savings for some may be neglected in favor of consumption. The combinations and permutations of possible responses to the new tax code are endless.

Further, the TRA was debated and implemented at a time of enormous economic change, rendering many or most predictions about city fiscal policies unreliable. Tax-exempt interest rates declined to an eight-year low, the federal deficit reached an all-time high, and the trade deficit turned the nation from a net exporter to a net importer in short order. Each of these major economic events individually would have quite important impacts on public finances. Taken together, major economic realignments coupled with the thousands of tax code changes cause projections about city fiscal policy changes to be suspect.

The time it takes individuals, businesses, and governments to adapt to the new tax environment varies by (1) **knowledge about** the tax code, (2) **regulations** governing tax code provisions and, for local governments, (3) **state responses** and adjustments to the new tax code. One of the most striking illustrations of the first type of adaptation concerns the tax-exempt debt volume in December 1985. A record volume of debt, almost all of it refinancing, was issued in December because the tax reform bill which the House had just approved (H.R. 3838) placed severe restrictions on debt issued after 1 January 1986. State and local governments' "knowledge about" the possible new tax code forced immediate responses. On the other hand, lack of knowledge about TRA will also influence the types of policies considered by cities. Passage in October 1986 of an extremely complex new tax code will require some time before city officials can digest and understand it fully. As a result, responses to TRA may have to wait months until finance officers and other officials gain adequate knowledge about the TRA to make informed, reasoned fiscal policy changes.

Regulations, on the other hand, are written by the Treasury Department and may take months or longer before they are finalized. As of this writing, most regulations are still being written and reviewed.

Finally, states' fiscal and statutory responses to TRA certainly affect local governments' responses. A state that rebates the income tax revenue "windfall" to the taxpayer – by far the most popular state strategy thus far – will only minimally improve the fiscal situation of cities.

Furthermore, because some elements of the new tax code are to be phased in over several years, local government responses to TRA presumably will be factored in gradually over that period. For example, the reduction in individual income tax rates is scheduled to be completed in two years. If the expected increase in disposable income results in higher consumer spending during those phase-in years, cities (and states) with sales taxes will in all probability receive more sales tax revenues than they would have in the absence of TRA. Responses by local governments to the new tax environment, then, will be shaped by a number of factors and are expected to be made over the next few years.

III. STUDY RESULTS

A questionnaire was sent to all chief finance and budget officers of cities and places with populations greater than 50,000 in June 1987. A reminder and second survey were mailed two weeks later. Usable responses from 234 cities, a 54 percent response rate, comprise the data base from which this study proceeds. Because this is a study of the impact of TRA on city finances in the first year of TRA's implementation, the questions asked finance officers what their cities had actually done or were expected to do during the 1987 year. Consequently, of those cities that are identified as having been affected by TRA, some had already undertaken fiscal shifts as of June 1987, while others are expected to do so within the year.

1) Adjustments to Fiscal and Debt Policies

Respondents in nearly half the cities believed their cities would adjust (or already had adjusted) fiscal policies as a result of TRA. Regional responses to that question varied only slightly (Table 1). For example, cities in the Midwest were less likely to adjust their fiscal policies than other regions – only 37 percent responded that they would – while western cities were more likely to adjust their fiscal policies (58 percent indicating a shift was likely).

Further, there were almost no regional differences in whether or not cities altered their debt or capital policies as a result of tax reform (Table 2). Nationally, three-fourths of the cities indicated that they would alter their debt policy. Regionally, western cities were slightly less likely to have altered their debt policies (67 percent) than cities from other regions, while 80 percent of the northeastern and midwestern cities have altered their debt or capital policies. But these differences were not statistically significant.

TABLE 1
REGIONAL DIFFERENCES IN THE PROBABILITY THAT CITIES WILL ADOPT DIFFERENT FISCAL POLICIES IN RESPONSE TO THE TAX REFORM ACT OF 1986

	Total	**Probably Will** Adopt New Fiscal Policies	**Probably Will Not** Adopt New Fiscal Policies
Northeast	28	50%	50%
Midwest	51	37%	63%
South	66	47%	53%
West	65	58%	42%
Total	210	102	108

TABLE 2
REGIONAL DIFFERENCES IN THE PROBABILITY THAT CITIES WILL ADOPT DIFFERENT DEBT OR CAPITAL POLICIES IN RESPONSE TO THE TAX REFORM ACT OF 1986

	Total	**Probably Will** Adopt New Debt Policy	**Probably Will Not** Adopt New Debt Policy
Northeast	31	81%	19%
Midwest	61	80%	20%
South	70	74%	26%
West	67	67%	33%
Total	229	172	57

In general, responses to TRA were as likely for cities in the west as for cities in the east, for cities dependent upon the sales tax for revenues as for cities dependent upon the property tax or income tax, for cities that issue industrial development bonds or employ tax increment financing as for cities that are less active in economic development.

2) Budgetary Shifts

The debate over tax reform frequently identified aspects of the proposal that might reduce the fiscal capacity of local governments. For example, lengthening the depreciation schedule and abolishing the investment tax credit for equipment and capital facilities might dampen investment and construction, thus reducing property values and tax revenues. New definitions of "governmental" (or "public purpose") and "private activity" (to be discussed below) might reduce capital spending financed from bonded debt. If these or any other aspects of tax reform had any impact, it was presumed the impact would be felt in cities' revenues. Several questions in the survey were developed to estimate the extensiveness of such impacts.

The most drastic fiscal policy response to TRA would be the elimination of certain city programs. However, only 11.5 percent of the responding cities felt there was any probability that their city would take such extreme measures. Indeed, nearly all of those respondents indicated that program elimination was "probable," but not "highly probable." Furthermore, while nearly three in four respondents (73.5 percent) thought their cities' operating expenses would not be reduced, only 56 percent believed their capital expenses would be unaffected.

Thus, a significant minority of finance officers believes that city fiscal adjustments to tax reform will be more manifest in their capital budgets than in their operating budgets (Table 3). Although cities in general have not opted to take draconian measures in dealing with TRA by eliminating city programs, 44.4 percent responded that their capital budgets probably will be reduced. The operating budgets of 26.5 percent of the cities will be reduced.

There is a statistically significant correlation between those cities that will probably reduce their capital expenses and those that will probably reduce their operating expenses. In other words, if finance officers believed their city probably would make no budgetary adjustments to the operating side, they tended to say their cities would make no adjustments to the capital side. And, finance officers who believed their cities' operating budget would be affected by tax reform tended to believe their cities' capital budget would likewise be affected.

TABLE 3
BUDGETARY RESPONSE TO THE TAX REFORM ACT OF 1986

	Reduce Operating Expenses	Reduce Capital Expenses
Highly Probable	5.5%	9.4%
Probable	21.0%	35.0%
Not Probable	45.0%	35.5%
Highly Improbable	28.5%	20.2%
Total	100.0%	100.0%
N =	200	203

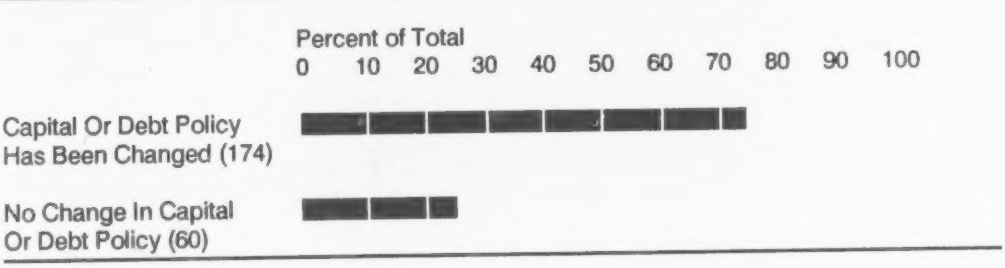
3) Capital/Debt Policy

From the perspective of state and local governments, the most hotly debated revision in the tax code was realized in the area of municipal bonds. The TRA redefined tax-exempt issues (see the Appendix for a brief overview of the new definitions) and declared many heretofore tax-exempt issues as taxable. Also, some arbitrage earnings now are to be rebated to the federal treasury. And local governments must comply with new reporting requirements.

The definitional changes, restrictions on arbitrage earnings, new reporting requirements, the alternative minimum tax, and other aspects of the new tax code were expected to have a detrimental affect on cities' capital and debt policies. Experience in the first seven months of 1987 reflects some of that concern. Controlling for the volume of refunding earlier in the year due to lower interest rates, only approximately $30 billion in new tax-exempt debt was issued between January and July 1987 – historically, a very low volume.

Three-fourths of the cities responding to the survey have altered their capital or debt policies as a result of TRA (Table 4). New definitions of "governmental" and "private activity" account for much of the shift.

TABLE 4
BAR GRAPH OF CHANGES IN DEBT/CAPITAL BUDGET POLICY



Approximately one-fourth of the finance officers indicated that the new definitions had caused, or probably will cause, the volume of city-issued debt to decline this year. Consequently, some cities (again approximately one-fourth of the cities sampled) have already begun to finance, or expect to finance this fiscal year, more of their infrastructure or capital outlays with current revenues or cash – a financing policy that is untouched by TRA's new definitions.

Cities are now spending much more time ensuring project compliance with the new 10 percent definitions (Tables 5 and 6).

TABLE 5
CHANGES IN CITY DEBT AND CAPITAL POLICIES

	Number	Percent
Projects Are Scrutinized More Closely Due To The 10 percent Rule	116	49.6
Reduction In Volume Of Debt Because Of New Definitions Of Private-activity Bonds	58	24.7
Increase In Current Revenue Or Cash Contribution To Capital Projects	57	24.4
Taxable Bonds Issued	41	17.5
Anticipated Tax Reform by Issuing More Bonds	30	12.8
Developers Providing More Infrastructure	28	12.0
Reduced G.O. Bond Issues	23	9.8
Reduced Revenue Bond Issues	19	8.1

The most frequently identified change in debt and capital policy is in the area of project selection. Nearly one-half of all cities responding to the survey said that compliance with the new tax-exempt bond definitions required closer project scrutiny.

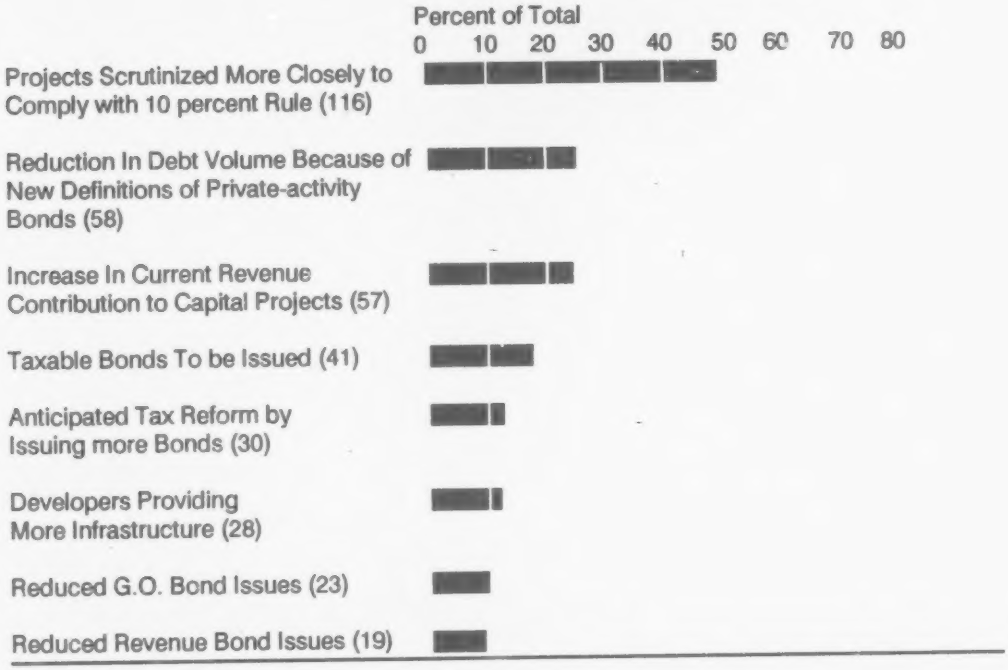
Slightly less than one in ten cities have actually reduced their volume of general oblication issues or their volume of revenue issues. In addition, nearly one in five cities has already issued or expects to issue taxable bonds this fiscal year because of TRA. Presumably, interest costs to those cities will be higher than if tax-exempt debt were issued. Finally, 13 percent have not yet had to alter their debt policy at all because they issued more debt than they would have under normal circumstances in anticipation of TRA. It is reasonable to expect that these latter cities will change their debt policy within the next year or two.

As a result of tax reform, 12 percent of the cities in the survey are requiring developers to provide more infrastructure than previously. And 42 percent of all cities responded that impact or development fees would be imposed or increased because of TRA, presumably to underwrite the costs of infrastructure (see next section).

4) Cooperative Arrangements (Cost-shifting and -sharing)

One possible fiscal response to TRA is to shift or share the costs of services and infrastructure with the private sector (developers) and with other state and local governments. By spreading the costs, service delivery and project construction might continue uninterrupted.

TABLE 6
BAR GRAPH OF CHANGES IN CITY DEBT AND CAPITAL POLICY



More than 42 percent of the responding cities indicated that impact or development fees would, or probably would, be adopted or increased as a result of TRA (Table 7). In addition to increasing development or impact fees, 12 percent of the cities responded that developers would be required to build more infrastructure as a result of tax reform (see Tables 5 and 6 above).

Another option for cities to consider is to establish cooperative arrangements with other local or state governments. Nevertheless, very few cities in the survey – less than five percent – have opted, or are likely to opt, for such cooperative arrangements.

5) Rental Properties

Fear that TRA would reduce incentives for investors in rental property has been widespread. Census Bureau data shows that as of July 1987, multi-family housing starts (with five units or more) totaled 239,900, down nearly 30 percent for the first seven months of 1987 compared with the first seven months of 1985. The downturn, according to *Investor's Daily*, was attributed primarily to two factors: previous overbuilding

Feburary 8, 1988

THE EFFECTS OF THE 1986 TAX REFORM ACT

CORRECTION TO TABLE 8 ON PAGE 11. IN THE TEXT, THE COLUMN HEADINGS ARE PRINTED INCORRECTLY. THE TABLE SHOULD READ AS FOLLOWS:

TABLE 8
CHANGES IN PROPERTY CLASS VALUES AS A RESULT OF THE TAX REFORM ACT OF 1986

	Industrial	Commercial	Owner Occupied Housing	Rental	Public Utilities
Higher Value	5.2%	6.8%	14.1%	6.7%	5.3%
No Change	82.8%	77.1%	82.2%	70.6%	87.8%
Lower Value	12.0%	16.1%	3.7%	22.7%	6.9%
N =	192	192	191	194	189

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and TRA. If TRA is responsible for less investment in rental property, not only will fewer rental units be constructed but also the value of rental property might decline and, consequently, property tax revenues from rental properties might also drop.

TABLE 7
IMPOSITION OF, OR INCREASE IN, DEVELOPMENT OR IMPACT FEES

	Number	Percent
Highly Probable	16	7.6
Probable	73	34.8
Not Probable	74	35.2
Highly Improbable	47	22.4
Total	210	100.0

Finance officers indicated that in general property values of all classes would probably be unaffected by TRA. However, the value of rental properties appears to be susceptible to decline. Almost one in four cities probably will experience a decline in rental property values, while the values of other property classes probably will be not as adversely affected (Table 8). Although the value of most properties probably will not be higher as a result of tax reform, a significant minority (14.1 percent) believed that the new tax code would increase personal disposable income and result in higher values for owner-occupied property.

TABLE 8
CHANGES IN PROPERTY CLASS VALUES AS A RESULT OF THE TAX REFORM ACT OF 1986

	Owner-Occupied	Rental	Public Utilities	Industrial	Commercial
Higher Value	5.2%	6.8%	14.1%	6.7%	5.3%
No Change	82.8%	77.1%	82.2%	70.6%	87.8%
Lower Value	12.0%	16.1%	3.7%	22.7%	6.9%
N =	192	192	191	194	189

6) Economic Development

Cities have adopted a variety of economic development strategies that are affected by the new tax code. Industrial development bonds, for example, will in most cases be classified as "private activity" issues and be rationed at the state level. Construction or promotion of convention centers and sports stadiums, a primary development strategy adopted by many cities in the past decade, can only be financed with tax-exempt debt under unusual circumstances. The 1986 tax changes mean cities' development efforts will probably be altered, or projects will be refined in order to comply with the tax code's stringent standards and new definitions.

Four broad economic development strategies were listed in the survey. Issuance or city sponsorship of IDBs is by far the most heavily relied upon economic development policy and is employed or has been contemplated in 174 (or 78 percent) of the 222 responding cities. Tax increment financing is used by 128 (59 percent) of 217 responding cities; convention centers and stadiums by 101 (49 percent) of 204 responding cities; and equity participation by 87 (or 43 percent) of 201 cities (Table 9). Seventeen cities identified other prominent city economic development strategies.

TABLE 9
CITIES' USE OF THE FOLLOWING ECONOMIC DEVELOPMENT TOOLS

	IDBs		TIFs		Equity Partic.		Stad/Conv. Ctr.	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
No	48	21.6	89	41.0	114	56.7	103	50.5
Yes	174	78.4	128	59.0	87	43.3	101	49.5

According to city finance officers, the most severe effects of TRA will be, or has been, felt in issuing IDBs for development purposes. Of the 174 cities that have adopted such a policy, 82 percent believe the new tax code will have, or has had, an adverse impact; 15 percent did not believe it would have any impact and three percent thought it would be used more. The other three development strategies would also be affected, but not as severely as IDBs. Nearly 53 percent of the cities which have employed TIFs or similar policies felt TRA would adversely affect the use of that development tool; 47 percent of cities that have employed, or contemplated, the policy of constructing convention centers or stadia thought TRA would affect that development policy; and 43 percent felt equity participation would be negatively affected (Table 10).

TABLE 10
EFFECTS OF TAX REFORM ON CITIES' ECONOMIC DEVELOPMENT TOOLS

	IDBs	TIFs	Equity Partic.	Stadium/Conv. Ctr.
Adverse effect	82.2%	53.1%	42.5%	46.5%
No effect	14.9%	39.1%	47.1%	50.5%
Will be used more	2.9%	7.8%	10.3%	3.0%
N=	174	128	87	101

7) Revenue Sources and Policy Responses

Budgetary Surplus. The effects of TRA on city finances will be felt in stages over a period of several years. Unwritten regulations, the gradual impact of lower income tax brackets, lack of a clear understanding of all the ramifications of tax reform, will all be addressed to one degree or another over the course of the next several years. Cities with budgetary surpluses, it can be argued, are better positioned financially to cushion the impact of tax reform than others.

However, according to the survey data from this tax reform project and from NLC's fiscal survey as reported in *City Fiscal Conditions*, of which there were 113 overlap cities, cities with fiscal year 1987 budgetary surpluses – defined as current year revenues minus current year expenditures – were just as likely to have done nothing differently because of TRA as were cities without budgetary surpluses. Further, cities with budgetary surpluses were just as likely to reduce operating and capital expenses, alter debt policy, change their economic development programs, and further engage the private sector in providing infrastructure programs as were cities without budgetary surpluses. In short, at least during Year One of TRA, budgetary surplus cities do not appear to be adopting fiscal policies that differ from cities without such surpluses.

Sales Tax. The new tax code no longer permits individuals to deduct sales tax from their federal taxable income. According to arguments made to retain sales tax deductibility – and all other state and local taxes – the price of government services would rise, possibly forcing cities and states to reduce their reliance on the sales tax as a revenue source. The data from the survey, however, indicates that cities that have implemented a sales tax were just as likely to reduce operating and capital expenses, alter much of their debt policy, change their economic development programs, and further engage the private sector in providing infrastructure programs, as were cities without sales taxes.

There was one statistically significant finding. Sales tax cities were less likely to reduce their general obligation and revenue debt compared with non-sales tax cities. In other words, cities that have reduced, or plan to reduce, general obligation or revenue debt, tended not to have the authority to levy a sales tax.

Income Tax. The TRA lowered tax rates, reduced the number of tax brackets, and eliminated many tax expenditures. As a result, the federal government is expected to generate more income tax revenues in the long term compared with the old tax code. Because the effect of TRA was to broaden the taxable base, many states were expected to reap a windfall; but local governments that levied an income tax would probably be unaffected, because local income taxes are generally flat taxes on salaries and wages with no deductions.

The data from the survey indicates cities having the authority to levy an income tax were just as likely to reduce operating and capital expenses, alter their debt policy, and change their economic development programs as were cities without a sales tax. When comparing "high" income tax cities with "low" income tax cities – defined as higher-than-average income tax revenues as a percent of General Fund revenues for fiscal year 1987 – the same results obtained.

Cities with the authority to levy an income tax were significantly less likely to require developers to provide more infrastructure as a result of TRA than cities without an income tax. Only one of the 43 cities with income tax authority responded that their infrastructure policy would now require developers to build more infrastructure than before TRA.

Property Tax. Although some cities are more dependent upon the property tax than others, most all cities levy a property tax to fund their operating and capital budgets. TRA may affect property tax dependent cities more than others if property values stagnate or decline. For example, commercial property may become less valuable because of the lengthened depreciation schedule for buildings and other capital equipment. Rental property likewise may become less valuable to investors because of the passive income restrictions.

The survey indicates that those cities whose fiscal year 1987 property tax revenues as a percent of the city's General Fund revenues were higher than the median for all cities were more likely to respond that fiscal policies would probably be altered than cities with lower property tax revenues. In particular, of those 11 cities that reduced their general obligation debt because of tax reform, 10 of them had "higher" than average property tax revenues.

IV. CONCLUSIONS

By itself, the impact of federal aid reductions on city finances would have been quite formidable for cities to surmount. Coupled with radical changes to the federal tax code, cities will be working even harder to finance their responsibilities. This study focuses on the impacts of TRA on city finances. How cities respond and adapt to the new environment will be revealed gradually over the next few years as the full effects of TRA are phased in, individual and business responses become more apparent, and regulations are issued by the Treasury Department. In the first year of TRA, the important impacts on city fiscal policies uncovered in this survey are that (1) capital and debt policies will be altered as a direct result of TRA, (2) capital outlays will be most affected, and probably reduced, due to TRA, and (3) economic development programs will be modified. Probably the most important finding is that there appears to be a great deal of uncertainty on the part of the finance officers in their assessments of how TRA will affect their cities finances. Even though a majority of the respondents could cite probable or actual impacts of TRA, few cities actually have made adjustments in their budgeting and finance procedures to reflect those expectations. For example, only 20 percent (or 46 of 230 responding cities) have altered their revenue-projection models to reflect this new fiscal environment. As the effects of TRA become increasingly felt in cities' coffers, not only is it reasonable to expect that the revenue models will be changed, but that, more importantly, cities will have to alter their programs and fiscal policies.

APPENDICES

Tax Reform Act's Definitions of Governmental and Private-Activity Bonds

The Tax Reform Act redefined "governmental" (or "public purpose") bonds and created two categories of "private-activity" bonds. "Governmental" bonds are issued exclusively for traditional governmental purposes. Two tests are applied to determine whether or not the bonds can be considered "governmental," issued as tax-exempt, and unrelated to the state volume cap. These tests are (1) the trade or business test, and (2) the security interest test.

If more than 10 percent of bond proceeds are used by persons other than the general public or the local government, the issue would satisfy the "trade or business test" (renamed the "private business case test") and cannot be tax-exempt. The old test established a 25 percent threshold. Further, if $15 million of an issue benefits a firm or individual, even though it meets the 10 percent rule, the amount over $15 million must be placed under the state volume cap (to be discussed below) or it must be considered taxable. For "output" facilities (e.g., gas and power, but not water), the threshold for being treated as a private activity is the lesser of 10 percent or $15 million.

The security test states that if more than 10 percent of the bond proceeds are repaid by a firm, individual or other non-governmental unit, the issue must be treated as a private activity. Furthermore, the tax reform law no longer allows tax-exempt status to bonds whose proceeds are loaned to a private person and which amount to 5 percent or $5 million of the total bond proceeds.

The first category of "private-activity" bonds are those that are no longer tax-exempt and consist of bonds issued for the following purposes: sports, convention, or trade show facilities; parking facilities (unless functionally related and subordinate to exempt facilities, such as public airport parking); industrial pollution control facilities; and industrial parks. Tax-exempt industrial development bonds can no longer be issued for these purposes (unless they are issued as general obligation debt, subject to the trade or business test and the security test).

The second, and more complex, category of "private-activity" issues set forth in the tax code allows some bond funds to be used for private-activity purposes as long as the volume of funding is limited. To establish such a limit, the law defines a cap on private-activity bond issues that can be tax exempt. Each state's cap for 1986 and 1987 is either a flat amount of $250 million a year or $75 per capita, whichever is greater. For 1988 and following years, the cap would drop to $150 million or $50 per capita to reflect the termination of single-family mortgage bonds.

A private-activity bond issue in this category is defined as an issue in which 10 percent or $15 million of the proceeds are used to pay for a project that benefits only a particular individual or firm, or an issue in which 5 percent or $5 million of the proceeds are used to make loans to a single individual or firm (such as a developer).

Any issue that violates the new definition of "governmental" is considered a private-activity bond and, if it exceeds the state volume cap, must be floated as a taxable bond issue. The difference between rates for tax-exempt and taxable bonds has been significant. Since 1978, tax-exempt bonds have been sold at interest rates equal to 60 to 80 percent of the interest rates on taxable bonds. An advisory panel to the Treasury Department's study on intergovernmental relations reports that total interest and principal payments could increase by as much as 33 percent if tax-exempt bonds were sold in the taxable bond market.

Private-activity bond issues in this category would count toward a state's cap in one of two ways. First, if any single person or firm receives benefits totaling more than 10 percent or $15 million of the facility funded by the bond issue, the amount of the issue over 10 percent must be counted toward the cap. Second, also counted toward the cap is the entire amount of a bond issue used to fund the following purposes: multi-family rental housing, small-issue industrial development bonds (non-manufacturing IDBs, sunset December 31, 1986; manufacturing IDBs, sunset December 31, 1989), student loans, mortgage revenue bonds (to sunset on December 31, 1988), facilities for non-profit organizations that are tax exempt under Section 501(c)(3) of the federal tax code, qualified redevelopment bonds (or tax increment bonds), governmentally-owned mass commuting facilities, facilities for furnishing water, sewer and solid waste disposal facilities (whether privately or governmentally-owned), local electric and gas facilities, and local district heating and cooling facilities.

Most airports (except for storage facilities, lodging, concessions, etc.), docks and wharves (excluding most storage facilities), governmentally-owned solid waste disposal facilities, and the Section 501(c)(3) non-profits are considered private activity but not subject to the volume cap. These activities are allowed to issue tax-exempt bonds. However, those issues are subject to the alternative minimum tax provision.

Cities Responding to Survey

Alabama
Mobile
Montgomery
Tuscaloosa

Alaska
Anchorage

Arizona
Glendale
Scottsdale
Tucson

Arkansas
Fort Smith
Little Rock
Pine Bluff

California
Alameda
Alhambra
Anaheim
Bakersfield
Berkely
Burbank
Chula Vista
Costa Mesa
Daly City
Downey
Escondido
Fullerton
Hawthorne
Hayward
Huntington Beach
Inglewood
Irvine
Monterey Park
Mountain View
Newport Beach
Oceanside
Ontario
Orange
Redwood City
Richmond
Riverside
Sacramento
Salinas
San Buenaventura
San Diego
San Leandro
Santa Ana
Santa Barbara
Santa Clara
Santa Monica
Simi Valley
Stockton
Sunnyvale
Vallejo
West Covina
Westminster

Colorado
Arvada
Aurora
Boulder
Colorado Springs
Fort Collins
Greeley
Westminster

Connecticut
Bristol
East Hartford
Fairfield
New Britain
Norwalk
Stamford
West Hartford

Delaware
Wilmington

District of Columbia

Florida
Clearwater
Daytona Beach
Largo
Miami Beach
Pensacola
Pompano Beach
Tallahassee

Georgia
Albany
Atlanta
Savannah

Hawaii
Honolulu

Idaho
Boise City

Illinois
Champaign
Chicago
Decatur
Elgin
Evanston
Joliet
Mount Prospect
Oak Park
Skokie
Springfield

Indiana
Muncie

Iowa
Davenport
Des Moines
Dubuque
Iowa City
Sioux City

Kansas
Kansas City
Overland Park

Kentucky
Lexington
Louisville
Owensboro

Louisiana
Baton Rouge
Kenner
Lafayette
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Shreveport

Maryland
Baltimore

Massachusetts
Brockton
Cambridge
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Michigan
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Battle Creek
Dearborn
Dearborn Heights
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Farmington Hills
Flint
Kalamazoo

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Livonia
Pontiac
Roseville
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Taylor
Wyoming

Minnesota
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Jackson

Missouri
Columbia
Florissant
Independence
Kansas City
St. Joseph
Springfield

Montana
Billings

Nebraska
Omaha

Nevada
Reno

New Jersey
Paterson
Woodbridge

New Mexico
Albuquerque

New York
Albany
Binghamton
Buffalo
Mount Vernon
New Rochelle
New York City
Rochester
Syracuse
Troy

North Carolina
Charlotte
Durham
Greensboro
High Point
Raleigh
Winston-Salem

North Dakota
Fargo

Ohio
Akron
Cincinnati
Cleveland
Cleveland Heights
Columbus
Dayton
Euclid
Hamilton
Lakewood
Lorain
Parma
Springfield

Oklahoma
Enid
Lawton

Oregon
Portland

Pennsylvania
Abington
Allentown
Ardmore
Erie
Levittown
Pittsburgh
Philadelphia

Rhode Island
Cranston
Warwick

South Carolina
Greenville

Tennessee
Clarksville
Memphis

Texas
Amarillo
Arlington
Beaumont
Corpus Christi
Dallas
Fort Worth
Galveston
Garland
Grand Prairie
Houston
Irving
Laredo
Lubbock
McAllen
Mesquite
Midland
Odessa
Plano
Port Arthur
Richardson
San Angelo
Tyler
Waco
Wichita Falls

Utah
Ogden
Salt Lake City
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Richmond

Washington
Bellevue
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Wisconsin
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Eau Claire
Green Bay
West Allis

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NLC serves as an advocate for its members in Washington in the legislative, administrative, and judicial processes that affect them; develops and pursues a national urban policy that meets the present and future needs of our nation's cities and the people who live in them; offers training, technical assistance and information to municipal officials to help them improve the quality of local government in our urban nation; and undertakes research and analysis on topics and issues of importance to the nation's cities.

NATIONAL LEAGUE OF CITIES
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CITY FISCAL CONDITIONS IN 1988

By

Douglas D. Peterson
Senior Policy Analyst
National League of Cities

July 1988

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PREFACE

This sixth annual National League of Cities City Fiscal Conditions Report presents the results of a survey sent to American cities in May 1988. It is one of a series of reports published by NLC in a continuing effort to provide current information on matters of importance to the officials of America's cities and towns.

The report this year focuses particularly on the budget adjustment actions taken by cities during the past year.

The report was prepared by NLC's Office of Policy Analysis and Development. Douglas Peterson, Senior Policy Analyst, was responsible for developing the survey instrument, analyzing the results, and preparing this report.

It is our hope that conducting this survey and publishing this report will contribute to a continuing discussion of and better understanding of the financial conditions of America's cities and towns. It is our further hope that this will in turn lead to more informed policy-making aimed at the improvement of these conditions.

Alan Beals
Executive Director
National League of Cities

William E. Davis III
Director, Office of Policy
Analysis and Development

ACKNOWLEDGEMENTS

First, and most importantly, I would like to express my appreciation to the individual city finance and budget officials who made time in their busy schedules to complete the questionnaire on which this report is based. Without their prompt and conscientious participation, the report would not be possible. I hope that these individuals find that the quality and usefulness of this report matches the quality of their efforts.

Second, to William Davis, director of NLC's Office of Policy Analysis and Development and William Barnes, NLC's Research Director for their continuing guidance and encouragement.

Third, special thanks to Deborah E. Johnson and Althea Ray for their continuing and good humored assistance in preparing the survey instrument, assisting with data entry, and helping the whole process stay on course. Thanks also to Jim Powell, Graduate Student Intern, for his assistance in data checking and response follow up. Additionally to Jeff Fletcher, Marketing Director for his help with production logistics and Randy Arndt, Media Director for his suggestions as the survey was developed.

Douglas D. Peterson
Senior Policy Analyst
Office of Policy Analysis and Development

EXECUTIVE SUMMARY

CITY FISCAL CONDITIONS IN 1988

by

Douglas D. Peterson

National League of Cities
July 1988

America's city officials continue to respond with a variety of budgetary actions to balance fiscal resources against service needs. In the face of falling federal revenues to cities and state-imposed limitations on city revenue raising and expenditure powers, city officials continue to make tough decisions.

Fifty-five percent of the officials responding to the survey on which this report is based indicated that the growth rate of operating spending in their community had been cut in the last year. Forty-four percent said that capital spending had been cut in their community during the same time period. A majority of the officials reporting both of these actions said that the loss of General Revenue Sharing was an influential factor in the decisions producing these results.

Thirty-five percent of the cities indicated that city services had been contracted out during the past year and one quarter indicated that the number of city employees had been reduced.

In dealing with the revenue side of the budget, 67 percent of the responding cities indicated that the level of fees and charges had been increased. Thirty-seven percent said that their city had implemented new fees or charges during the past year. Impact or development fees are being increasingly being employed to cope with the public costs imposed by real estate development and 24 percent of the responding cities indicated that such fees had either been imposed or raised in their community during the last year.

Cities in the western region of the country were most active in making changes in their fee and charge policies. Seventy-three percent of the responding cities from this region indicated that fees and charges had been increased in the last year. Forty-three percent of the western cities indicated that new fees had been imposed and 39 percent said development fees had been imposed or raised during the last year.

Forty-one percent of the responding cities indicated that city property tax rates had been increased in the last year. Again a majority of the cities taking this action indicated that the loss of General Revenue Sharing was influential in the decision to raise the property tax rate. In contrast to their leading frequency of fee adjustment actions cities in the West were least likely to have increased property tax rates. Both results can probably be attributed in part to Proposition 13 in California, and other state regulations elsewhere within the region, that make property tax rate increases in this region difficult. This in turn produces pressure on other forms of municipal revenue such as fees.

Much smaller percentages of cities indicated that increases had been made in either sales or income tax rates compared to property tax rate increases. Eight percent of the cities indicated that sales tax rates had been increased and only one percent indicated that income tax rates had been increased. This much lower frequency of adjustment of the rates of these two taxes reflects both the fact that fewer cities are authorized by state law to use these tax sources and when they are authorized to use them the power of an individual city to adjust rates is severely limited or non-existent.

This year, as in past years, the survey looks at rates of change in the revenues and expenditures within city general fund budgets. The survey also examines the relationship between current year revenues and expenditures.

Twenty-five percent of the responding cities experienced an actual decline in their general fund revenues while 70 percent experienced an increase; the remaining 5 percent said their general fund revenues were holding steady. These results are essentially the same as the pattern one year earlier.

Eighty percent of the cities experienced expenditure increases in their general fund and 18 percent experienced decreases.

When revenues were compared with expenditures, 50 percent of the cities indicated that expenditures would exceed revenues in the 1988 fiscal year. Thus a majority of the cities will be using funds from the balances with which they began the year in order to finance expenditures. Since these numbers for 1988 are based on estimates, made in the month of May (most city fiscal years end in June), the actual results will probably show somewhat different results. Based on past surveys the results should be somewhat better than these projections.

While most cities began the 1988 fiscal year with balances exceeding five percent of expenditures a majority of the cities are projecting that these balances will be reduced during the year. Some reductions in balances simply result from the normal process of evening out uneven revenue and expenditure flows from year to year but for other cities these fund depletions will result in real reductions in the city's capacity to deal with economic uncertainty.

The report concludes with an examination of changes in the levels of city employees. According to U.S. Census Bureau statistics for 1986, the latest year available, total city employment is still below the level achieved in 1975. From 1986 to 1987 24 percent of the cities report a personnel decrease and from 1987 to 1988 24 percent of the cities also indicate personnel reductions. On the other hand, 55 percent of the cities indicate personnel increases from 1986 to 1987 and 57 percent indicate increases from 1987 to 1988.

While each city's financial condition must be evaluated individually, in light of community conditions, it is hoped that this report provides a useful national baseline for comparison.

I. INTRODUCTION

This study reports on the sixth annual survey of city fiscal conditions of America's cities conducted by the National League of Cities.

The League conducts this survey as part of its continuing research and information program for America's municipalities.

While a complete analysis of an individual city's fiscal health involves an examination of a host of factors beyond the scope of this survey, it is hoped that this report, based on responses by a cross-section of American cities, can establish a baseline for further individual analyses.

The responses of the 350 cities, who completed the survey documents, have enabled preparation of a report with representation from across the country.

This report does not attempt to aggregate the municipal financial experience but rather to demonstrate its variations. If the financial transactions of all cities in this report were simply to be added up, the result would be a homogenization in which the variety of the municipalfiscal landscape would be lost.

The report provides information on a variety of city financial indicators including:

- the trend in general fund revenues, expenditures, and balances
- the trend in municipal hiring
- budget adjustments made by cities in the last year and the factors influencing those adjustments

All of the indicators presented here are considered important, but all are of a narrow accounting nature. They look only at taxes levied, money spent, and financial balances.

A more complete picture of city fiscal conditions requires indicators of comparable strength that measure service deficits and surplusesøthat is, indexes of the services which citizens receive and deserve. This report does not provide these equally important measures, but it is hoped that some useful trend data is provided which can assist in individual community assessments and contribute to national and state policy discussions about municipal policies that invest in the future of America's cities and towns.

Why are cities important?

There are over 19,000 government units in the United States classified by the U.S. Census as municipalities. Their formal title may be city or town or village but they share an important common functionøthe delivery of services to their citizens.

It is a diverse group ranging from New York City, whose population is larger than that of all but nine states, whose municipal work force is larger than the total population of all but thirty-three American cities, and which spends 18 percent of all the money spent by U.S. municipalities, to the smallest incorporated places with populations of less than fifty people and which provide virtually all their services through the use of volunteers.

Over 60 percent of the U.S. population resides in cities.

When viewed as part of the American governmental financial system, cities are also significant.

Cities are responsible for 9 percent of all governmental spending, levy 6 percent of all taxes, employ 15 percent of all civilian government employees, and are responsible for six percent of all governmental debt outstanding.

The purpose of this report is to indicate where cities have been in the recent past and what they face in fiscal 1989.

How the Survey was Done and Which Cities Responded

In May, 1988, a city fiscal conditions questionnaire was sent to 756 American cities by NLC's Office of Policy Analysis and Development. The questionnaire asked for a three year history of a number of items:

- Summary of General Fund transactions
- Municipal personnel
- Budget adjustments made in the last year

Also included were a series of questions on federal tax reform and property taxes which will be incorporated in future reports.

TABLE I-2
1988 NLC FINANCIAL SURVEY CITIES BY STATE AND POPULATION SIZE

States	**10,000 to 49,999**	**50,000 to 99,999**	**100,000 to 299,999**	**over 300,000**	**Total**
ALABAMA	3	2	1	0	6
ALASKA	0	0	1	0	1
ARIZONA	0	0	4	2	6
ARKANSAS	1	2	1	0	4
CALIFORNIA	13	21	10	5	49
COLORADO	2	4	2	1	9
CONNECTICUT	4	5	1	0	10
DISTRICT OF COLUMBIA	0	0	0	1	1
DELAWARE	0	0	0	0	0
FLORIDA	5	5	4	1	15
GEORGIA	1	1	2	1	5
HAWAII	0	0	0	1	1
IDAHO	0	0	0	0	0
ILLINOIS	8	6	2	1	17
INDIANA	1	2	1	1	5
IOWA	2	3	2	0	7
KANSAS	3	1	2	0	6
KENTUCKY	4	1	1	0	6
LOUISIANA	2	4	1	1	8
MAINE	1	0	0	0	1
MARYLAND	2	0	0	1	3
MASSACHUSETTS	4	0	0	1	5
MICHIGAN	6	10	2	1	19
MINNESOTA	5	1	0	1	7
MISSISSIPPI	3	2	2	1	8
MISSOURI	0	0	0	0	0
MONTANA	1	0	0	0	1
NEBRASKA	0	0	0	1	1
NEVADA	0	0	2	0	2
NEW HAMPSHIRE	1	0	0	0	1
NEW JERSEY	5	3	0	1	9
NEW MEXICO	2	1	0	1	4
NEW YORK	6	4	0	2	12
NORTH CAROLINA	1	3	4	0	8
NORTH DAKOTA	1	1	0	0	2
OHIO	3	3	2	4	12
OKLAHOMA	0	3	0	1	4
OREGON	5	0	1	1	7
PENNSYLVANIA	6	7	1	0	14
RHODE ISLAND	0	1	0	0	1
SOUTH CAROLINA	1	1	0	0	2
SOUTH DAKOTA	2	0	0	0	2
TENNESSEE	4	1	0	2	7
TEXAS	12	10	9	4	35
UTAH	1	3	0	0	4
VERMONT	0	0	0	0	0
VIRGINIA	0	1	2	1	4
WASHINGTON	2	0	1	1	4
WEST VIRGINIA	2	1	0	0	3
WISCONSIN	4	3	1	1	9
WYOMING	0	0	0	0	0
TOTALS	129	116	62	40	347

TABLE I-1
CITIES SURVEYED BY CITY SIZE

City Population	Total Number of Cities in This Class	Number of Surveys Sent	Number Returned	Percent Response
300,000 and over	51	51	40	78
100,000 to 299,999	127	127	62	49
50,000 to 99,999	250	250	116	46
10,000 to 49,999	1,787	328	129	39
Total	2,215	756	347	46

The survey was sent to all cities over 50,000 population and to a random sample of all cities between 10,000 and 50,000 in population.

Almost 350 cities returned the survey document in time to be included in this report. Table I-2 reports the distribution of the responding cities by population size and state. A complete list of the responding cities is included in the Appendix.

The population size of the responding cities ranged from communities just over 10,000 population to New York City with a population of 7,262,750.

On a regional basis, the respondents were distributed as follows:

TABLE I-3
RESPONDING CITIES BY REGION AND POPULATION SIZE

	Total	Over 300,000	100,000 to 299,999	50,000 to 99,999	10,000 to 49,999
Northeast	53	4	2	20	27
Midwest	95	11	14	32	38
South	111	13	25	35	38
West	88	12	21	29	26
Total	347	40	62	116	129

The regional breakdowns used are as defined by U.S. Census Bureau.

The composition of these four regions and their component divisions is shown on Table I-4.

TABLE I-4
REGIONS AND DIVISIONS

Northeast Region

New England Division

- Maine
- New Hampshire
- Vermont
- Massachusetts
- Rhode Island
- Connecticut

Mid-Atlantic

- New York
- New Jersey
- Pennsylvania
- Puerto Rico

Midwest Region

East North Central

- Ohio
- Indiana
- Illinois
- Michigan
- Wisconsin

West North Central

- Minnesota
- Iowa
- Missouri
- North Dakota
- South Dakota
- Nebraska
- Kansas

South Region

South Atlantic

- Delaware
- Maryland
- District of Columbia
- Virginia
- West Virginia
- North Carolina
- South Carolina
- Georgia
- Florida

East South Central

- Kentucky
- Tennessee
- Alabama
- Mississippi

West South Central

- Arkansas
- Louisiana
- Oklahoma
- Texas

West Region

Mountain

- Montana
- Idaho
- Wyoming
- Colorado
- New Mexico
- Arizona
- Utah
- Nevada

Pacific

- Washington
- Oregon
- California
- Alaska
- Hawaii

II. THE GENERAL FUND BUDGET

The survey asked the respondents, who were city finance or budget officials, for a three year history of their city's general fund budget in order to provide an indication of municipal budget trends.

What Were the Cities Asked For?

The cities were asked for a three year history/projection of their general fund budget.

I. For the City's General Fund

The officials were asked to provide information for their city's general fund.

The general fund was selected as the focus of this report for the following important reasons:

1. "The general fund is normally the most important fund of a municipality. It accounts for all resources not otherwise devoted to specific activities and finances many of the basic municipal functions . . . ."(ICMA, *Management Policies in Local Government Finance*, p. 209.)

2. The general fund is frequently a central focus of local budget deliberations since it usually finances such central municipal functions as police, fire, public works,planning and central administrative departments. It is also the area where state imposed limitations on taxing and spending are often most binding. The general fund however does not include all the expenditures a city makes.

The proportion of a city's spending incorporated in the general fund can show substantial variation depending on: (1) the complexity of a city's accounting system and the dictates of federal or state laws; (2) borrowing requirements imposed by lenders which may require segregation of both loan proceeds and the funds collected to repay the loan; and (3) the functions which a city carries out. As mentioned before, in some very small communities one hundred percent of the budget may be in one general fund. In most communities, even those of modest size, a number of funds are required. Examples of operations that are frequently set up in funds separate from the general fund would include:

> **Enterprise Funds** – for example, municipally operated sewer, water, and electric utilities which are established to be self-sustaining through customer service charges.
>
> **Debt Service Funds** – which are set up to receive dedicated revenues used to make principal and interest payments on city debt.
>
> **Trust Funds** – for example bequests which are to be spent only for particular purposes.
>
> **Special Revenue Funds** – such as those set up to account for federal or state grants given to accomplish particular projects.

The general fund was chosen as a focus of this report because of the type of activities which it finances, those general operations of the city which do not have special or dedicated revenue sources. While the percentage of the city's operation incorporated in the general fund was not the criteria for selection the respondents were asked what percentage of their total city spending the general fund represents.

As the previous description indicates the results varied the average figure was 56 percent. The most frequently occurring answer was 50 percent and there was an equal number of cities in which the figure was above and below 50 percent.

II. Four Numbers

They were asked to provide four figures for each year.

> **Beginning Balance:** Simply speaking, these are the resources with which the city's general fund begins the year. If the city's general fund were a personal checking account, this would be like the balance carried forward from the previous month.

Revenues (and transfers in): This is the grand total of all taxes, fees, charges, federal and state grants, and other monies deposited into the general fund. While revenues are generally recurring items, the "transfers into general fund" also lumped into this item probably are not be of a regular recurring nature. These transfers occur when a city brings funds from one of its other specialized funds into the general fund for a variety of reasons.

Expenditures (and transfers out): This is the total of all spending by the general fund of the city and may include both operating and capital spending. As on the revenue side, transfers out of the general fund to other funds of the government are also included here.

Ending Balance: These are the resources with which the city's general fund is left at the end of the year. The ending balance results from this simple equation: Beginning Balance + Revenue - Expenditures = Ending Balance. The ending balance of year one becomes the beginning balance of the ensuing year.

III. For Three Years

The cities were asked to provide the general fund summary figures previously described for each of three years:

A. the fiscal year which ended in 1986,

B. the fiscal year which ended in 1987, and

C. the fiscal year which will end in 1988.

Because the surveys were completed in May and June of 1988, consequently respondents had to use estimated or budget figures for 1988. It is to be expected that actual 1988 figures will differ somewhat from those reported here. The fiscal year used by cities within a state tend to be uniform and are often specified by state law. This year's survey did not ask about the dates of fiscal years but past surveys have found that about 45 percent of cities have fiscal years ending in June, 30 percent ending in December, 15 percent ending in September (like the federal government) with the rest ending in some other month.

Revenues

This section of the report looks at the rates of growth in general fund revenues experienced by the surveyed cities during two time periods (1) fiscal year 1986 to 1987 and (2) fiscal year 1987 to 1988.

One of the most striking things is the variety of city revenue change.

TABLE II-1
GENERAL FUND REVENUE CHANGE

	Percent of Cities	
	FY 86 to 87	FY 87 to 88
Revenue declined	21	25
Revenue constant	4	5
Revenue increasing	75	70
	100	100

One quarter of the cities expect to see their revenues decline during the 1988 fiscal year, up slightly from the 21 percent which experienced this one year ago. Seventy percent expect to see revenues increase, down from 75 percent in the previous year.

TABLE II-2
CITIES WITH DECLINING GENERAL REVENUE BY REGIONS

	Percent of Cities	
	FY 86 to 87	FY 87 to 88
All Regions	21	25
Northeast	18	18
Midwest	15	27
South	27	22
West	22	28

Twenty-eight percent of the cities in the West and 27 percent in the Midwest expect to see revenue declines. Almost twice as large a percentage of midwestern cities expect a revenue decline in 1988 as experienced one last year.

While the numbers are relatively consistent in the two time periods, in every size category there is some increase in the percentage of cities who expect to experience a general fund revenue decline during the 1988 fiscal year.

TABLE II-3
PERCENT OF CITIES BY SIZE CLASS WITH A GENERAL FUND REVENUE DECLINE

Population Size	FY 86 to 87	FY 87 to 88
All Cities	21	25
300,000 and over	10	12
100,000 to 299,999	17	21
50,000 to 99,999	29	34
10,000 to 49,999	19	21

What about those cities that expect a revenue increase? Just under 30 percent of the cities in both years expect to see a modest revenue increase of between 1 and 5 percent. Those that expect general fund revenue increases in excess of 5 percent come from the following regions and size classes.

TABLE II-4
CITY REVENUE INCREASES OVER FIVE PERCENT BY REGION

	Percent of Cities	
	FY 86 to 87	FY 87 to 88
All cities	47	43
Northeast	56	59
Midwest	48	33
South	40	55
West	50	36

Smaller percentages of the cities in the Midwest and West expect to experience revenue growth exceeding 5 percent during 1988 than experienced this in 1987. An increased percentage of the southern cities on the other hand expect to see this more rapid type of revenue increase.

TABLE II-5
CITY REVENUE INCREASES EXCEEDING FIVE PERCENT BY POPULATION SIZE

	Percent of Cities	
Population Class	FY 86 to 87	FY 87 to 88
All Cities	47	44
300,000 and over	36	42
100,000 to 299,999	55	47
50,000 to 99,999	39	38
10,000 to 49,999	54	49

As the above table shows, there is a considerable degree of consistency in this revenue performance from year to year and between size classifications.

Expenditures

City general fund spending patterns exhibit as much variety as the revenue growth patterns which were just described.

TABLE II-6
EXPENDITURE EXPECTATIONS

Expenditures Expected to:	Percent of Cities FY 86 to 87	FY 87 to 88
Decline	23	18
Be constant	3	2
Increase	74	80
	100	100

The percentages of cities falling into these three broad categories are quite consistent from year to year. A slightly lower percentage of cities expect their general fund expenditures to decline while slightly more expect to see an increase.

TABLE II-7
LOWER CITY SPENDING BY REGION

	Percent of Cities FY 86 to 87	FY 87 to 88
Total	23	18
Northeast	18	21
Midwest	21	15
South	28	18
West	21	20

The percentages are fairly consistent from year to year when evaluated on a regional basis.

TABLE II-8
LOWER SPENDING BY POPULATION SIZE OF CITY

Population Class	FY 86 to 87	FY 87 to 88
All Cities	23	18
300,000 and over	21	6
100 to 299,999	17	17
50 to 99,999	26	19
10,000 to 49,999	23	21

One in five of the cities expected General Fund Spending to decline during both time periods.

TABLE II-9
CITY SPENDING INCREASES OVER FIVE PERCENT BY REGION

Region	Percent of Cities FY 86 to 87	FY 87 to 88
All Cities	46	54
Northeast	58	64
Midwest	42	61
South	39	55
West	54	43

TABLE II-10
SPENDING INCREASES OVER FIVE PERCENT BY POPULATION SIZE

Spending Expected to Increase by More Than 5% Size Class	Percent of Cities FY 86 to 87	FY 87 to 88
All Cities	46	54
300,000 and over	41	54
100,000 to 299,999	52	53
50,000 to 99,999	41	60
10,000 to 49,999	50	49

When one looks at the cases where expenditure increases in 1988 are expected to exceed the higher figure of 15 percent, an interesting pattern does emerge. Generally as city size decreases, the percentage of cities expecting an expenditure increase exceeding 15 percent increases.

TABLE II-11
SPENDING INCREASES OVER 15 PERCENT BY POPULATION SIZE

City Size	Percent of Cities
300,000 and over	12
100,000 to 299,999	11
50,000 to 99,999	16
10,000 to 49,999	22

Looking at this high growth in expenditures on a regional basis another pattern emerges.

TABLE II-12
SPENDING INCREASES OVER 15 PERCENT BY REGION

Region	Percent of Cities
Northeast	12%
South	21%
Midwest	17%
West	12%

The South and Midwest have greater numbers of cities who expect very rapid expenditure increases followed by the West and Northeast.

How Do Cities See Their Revenues Matching Up With Expenditures?

Expenditures and revenues of municipalities are not independent of each other, but rather, interdependent. At times, tax and revenue policy will be consciously designed to underwrite expanded programs, and, at other times, natural revenue increases will permit program expansions, tax cuts, or attacks on backlogged capital spending needs. On the other hand, revenue decreases often force reductions in levels of service and spending levels. At other times, cities make conscious decisions to reduce revenues and provide a smaller package of service.

Most cities are required by state or municipal law to produce budgets that balance. This means total resources must exceed total spending. Resources include beginning balances and revenues not just revenue alone.

The first step in this analysis is to see just how current year revenues and expenditures match up without the consideration of beginning balances.

TABLE II-13
CITY GENERAL FUND EXPENDITURE/REVENUE RELATIONSHIP

	Percent of Cities		
Fiscal Year	1986	1987	1988
Expenditure exceeding revenue	40	33	50
Expenditure equaling revenue	8	14	26
Expenditure less than revenue	52	53	24
	100	100	100

During 1988, 50 percent of the cities expect expenditures to exceed revenues. If this pattern is borne out in actual results, it will force the drawing down of beginning balances. This would represent a 52 percent increase from 1987 results. There is a natural pessimistic bent to city government budgeting practices so actual results in 1988 probably won't be quite this extreme. In order to guarantee a positive balance, revenue estimates must be conservative while expenditure requirements must be pessimistic. Even when this predictable budgeting tendency is discounted it is clear that this is not an optimistic trend.

It is particularly revealing to look at those fiscal years where actual results are being reported. While there appears to have been some improvement from 1986 the figure is still worse than that which existed in 1984 or 1985.

TABLE II-14
PERCENTAGE OF CITIES REPORTING EXPENDITURES EXCEEDING REVENUES IN GENERAL FUND BUDGETS

Fiscal Year	1984	1985	1986	1987
Percent of Cities	24	30	40	33

The 1984 and 1985 figures were taken from previous NLC Fiscal Conditions Surveys. This pattern is particularly disturbing when viewed against other trends: the beginning of renewed inflationary pressures, the fact that the full "bite" of general revenue sharing losses started to take effect in 1988, and the number of states in tight fiscal situations which will have a spin-off effect on the cities within them.

Another factor, which makes this figure even more important, is the continuing large percentage of cities which report reductions in capital spending. Capital spending, particularly the smaller construction projects often reflected in general fund budgets, is often used as a budget relief valve. The full cost of a capital project will be budgeted, but with planning and design processes the project may not be ready for contract award until the end of the fiscal year. If the budget is tight, the project award may be deferred. This deferral results in immediate savings, which in turn helps in budget control.

With lower levels of capital spending reported by cities, this means that greater portions of municipal budgets will be operating spending, primarily salaries and attendant fringe benefits, for municipal employees. These expenses are much harder to control as they are spent regularly over the course of the fiscal year. For example, if a budget reduction is required at the middle of a year, personnel cost reductions have to be "doubled". For example, if personnel costs are $1,000,000 with fifty employees (average cost $20,000) and a required savings of $100,000 is identified at mid-year, then a layoff of 10 employees is required, not five as might first be guessed, since the required savings have to be realized in only one half year (1/2 x 20,000 x 10 = $100,000).

This simplified example does not even consider a variety of factors with which cities must deal, for example; minimum notice periods for layoff, varying salary levels, termination benefits, unemployment payments, and many other factors. Delayed budget spending decisions by the federal and state governments about levels of municipal assistance to be included in their budgets only make these problems more extreme.

Twenty-six percent of the cities expect revenues and expenditures to be in exact balance. This expected mathematical precision results from the fact that many communities are reporting budget expectations; actual results can be expected to show some variation. The fact remains that one quarter of the cities expect revenue and spending to be very close.

The General Fund Revenue-Expenditure Imbalance Index

What is the extent of the mismatch between current revenues and spending that is expected?

Because general fund budget sizes vary from city to city, it is necessary to reduce the revenue and expenditure figures to some common index. To do this for the most current year, 1988 expenditures are subtracted from 1988 revenues to yield the dollar amount of the imbalance. Because city budget sizes vary so much it is useful to translate this figure to a comparative base.

In order to produce this comparative index the basic imbalance figure is divided by 1987 expenditures.

Thus, a city with $1,000,000 of revenue and $1,100,000 in expenditures would have an imbalance index of -9 percent. A city with revenues equaling expenditures would have an index of zero. A city with revenues of $1,100,000 and expenditures of $1,000,000 would have a positive index of 10 percent.

As an example, this concept, when applied to the federal budget equivalent of a city general fund budget for fiscal year 1987, produced an imbalance index of -41 percent. For the current 1988 fiscal year, the President's budget proposal would produce an imbalance of -44 percent. This index number dramatically shows the imbalance in the financing of general federal activities. It should also be pointed out if the federal government utilized a capital budget some of the expenditures producing this high index of imbalance would go "off-budget" and probably produce a lower imbalance figure. (Source: NLC calculations based on "Federal Fund Receipts and Expenditures (Excludes trust funds)" Table C-2, *Special Analysis Budget of the United States Government Fiscal Year 1989* O.M.B.)

Since some budget variation is normally experienced, a review of the city figures after allowing for a five percent variation from absolute balance in the index in either direction may prove useful.

TABLE II-15
IMBALANCE INDEX 1986, 1987 AND 1988 PROJECTED

	Percent of Cities		
Imbalance Index *	**1986**	**1987**	**1988**
Worse than -5%	10	8	16
-5 to +5%	71	71	76
Better than +5%	19	21	8
	100	100	100

*Imbalance index = $\frac{\text{Revenue - Expenditure}}{\text{Expenditure}}$

This tabulation, as would be expected, shows significant clustering around the middle values. The same negative trends identified before are also shown here. Twice as large a percentage of cities expect an imbalance index exceeding 5 percent in 1988 as did in 1987. At the other extreme, only 8 percent of the cities expect a positive balance index exceeding 5 percent, a 62 percent decline from 1987. Again, the conservative estimating tendencies must be factored in. By looking at those years where data is final, the following patterns are shown.

TABLE II-16
PERCENT OF CITIES REPORTING REVENUE-EXPENDITURE IMBALANCES

	1984	1985	1986	1987
Worse than -5%	8	11	10	8
Better than +5%	33	27	19	21

These rows show a considerable consistency with a somewhat smaller percentage of cities observing positive revenue-expenditure relationships exceeding 5 percent in 1986 and 1987.

When viewed on a regional and city size basis, other trends emerge.

TABLE II-17
PERCENT OF CITIES IN WITH IMBALANCE INDEXES WORSE THAN -5%

Region	1986	1987	1988
All Cities	10	8	16
Northeast	10	8	12
Midwest	8	7	16
South	11	7	15
West	12	9	19

The most noticeable observation from this table is that increasing percentages in all regions expect 1988 imbalance indexes worse than -5 percent.

TABLE II-18
PERCENT OF CITIES IN EACH POPULATION CLASS WITH IMBALANCE INDEXES WORSE THAN -5%

Size Class	1986	1987	1988
All Cities	10	8	16
300,000 and over	5	0	6
100,000 to 299,999	7	3	19
50,000 to 99,999	10	7	21
10,000 to 49,999	14	13	12

Again there is a deterioration in cities of all sizes except the smallest from 1987 to 1988. Similarly, there appears to be a general pattern of deterioration as city size decreases, again except in the 10,000 to 50,000 population class. The relatively smaller budget sizes of these communities means that dollar variations in budgets which would be engulfed in the budgets of larger communities can produce noticeable percentage variations in these budgets. This fact may produce more conservative budgetary projections and contribute to the steadier pattern displayed above.

In order to examine the entire picture, the third, and so far missing component of the budget balancing act, needs examination; this factor is the beginning balance.

Cushioning the Expenditure-Revenue Imbalance

As discussed earlier, the beginning balance in basic terms is the the amount of funds with which the city starts the year.

To the extent that cities have beginning balances they can be utilized to cushion a current year mismatch between revenues and expenditures.

It is very important to emphasize that not all amounts included in the beginning balance are readily available to perform this cushioning function. One reason is that some portions of the balance may be legally restricted, reserved for a specific purpose and thus not available to cover general spending requirements. A second reason is that resources reflected in the balance are not all held in the form of cash, they may represent unpaid taxes or charges which are legally owed to the city but have not been paid.

At the beginning of the 1988 fiscal year 26 percent of the reporting cities had beginning balances equal to 5 percent or less of their 1988 expenditures. Seventy-five percent of the reporting cities had beginning balances exceeding this 5 percent threshold.

The majority of the reporting communities will not be increasing their balances during the course of fiscal 1988. As the previous revenue/expenditure discussion would indicate most of the communities will be drawing down their beginning balances during the course of the year. Fifty-seven percent of the communities will be reducing their balances and 15 percent will just be maintaining the dollar amount of their balance. Twenty-eight percent will be building up their balances in 1988.

Summing Up

During fiscal 1988 most of the cities in this survey will be drawing down their beginning balances. While for some cities this will be normal process of leveling out uneven revenues and expenditures from year to year, for others it is a forced choice which will reduce future financial adaptability in order to meet the service needs of today.

III. BUDGETARY ADJUSTMENTS

Cities operate in complex and changing environments and the budgets of cities must be adjusted by city leaders to respond and adapt quickly to these changes.

Among the factors which often influence city spending and operating decisions are the following:

- The tax and spending limits imposed by state laws or constitutions.
- Growth or decline in community population, also the speed of the overall change and the changing demographic composition of a community's population.
- Changes in the level and type of funding from state and federal sources.
- Expenditures which are mandated (required) by federal and state laws and regulations as well as spending requirements imposed by court decisions.
- Changes in the economic base of the community as industries and firms grow and decline in importance.
- Changes in community spending priorities often concurrent with elections and other changes in community leadership.

The survey asked the respondents to specify which of fifteen specified budget adjustment actions had been taken by their city in the last year.

The respondents were further requested to indicate which of five listed factors they judged to be influential in the decision to take the listed action.

The accompanying table summarizes the actions taken and the influential factors from among which the respondents could choose.

TABLE III-1
BUDGET ADJUSTMENTS REPORTED BY CITIES

		Factors influencing reported actions (Percent of cities reporting specified action*)				
Budget Adjustments Reported by Cities	**Percent reporting action last year**	**Loss of General Revenue Sharing**	**Federal tax reform**	**Loss of other federal funds**	**Change in state funding**	**Other factors**
Increased fees and charges	67	38	2	7	12	78
Reduced growth rate of operating spending	55	57	3	23	23	60
Reduced capital spending	44	64	5	18	15	46
Increased property tax rates	41	55	4	14	22	69
Implemerited new fees and charges	37	40	1	6	16	73
Contracted out services	35	18	3	5	7	81
Reduced number of city employees	25	52	1	22	20	62
Imposed/raised impact or development fees	24	28	5	9	21	37
Froze municipal hiring	22	46	5	19	19	73
Increased rates of other taxes (other than property, income, or sales)	16	60	2	17	19	57
Reduced city service levels (e.g., hours of operation)	14	44	9	26	26	85
New tax or taxes	10	37	0	6	11	66
Increased sales tax rates	8	59	0	19	19	63
Shifted service responsibilities to another government	5	38	0	13	38	50
Increased income tax rates	1	4	0	0	0	75

* Totals sum to more than 100 percent because many cities reported multiple factors for a single decision

Adjustment of Fees and Charges

The most frequently employed action by the responding cities was an increase in the level of fees and charges. Sixty-seven percent of the cities report this action has been taken in the last year.

According to statistics of the U.S. Census Bureau such fees and charges constitute about one-fifth of general city revenues (general revenues exclude the revenues of city operated electric, gas, transit, and water utilities).

The types of fees and charges which cities impose include charges for recreation programs, charges for various zoning and planning actions, inspection fees and permits for various commercial activities.

Cited most frequently as influential in this action were "other factors" which four-fifths of the respondents credited as influencing these actions. Two-fifths of the cities attributed the increased level of fees and charges to the loss of the funds formerly received from the federal General Revenue Sharing program.

General Revenue Sharing, which was terminated in September 1986, formerly provided about two percent of general city revenues and more than one-fifth of all federal funds received by city governments.

On a regional basis 73 percent of the western cities reported raising fees. More than two-thirds of the northeastern (66 percent) and midwestern (68 percent) cities also report having taken this action during the last year. A somewhat lower percentage of the southern cities (60 percent) report having raised such fees and charges during the past year.

Eighty percent of the cities over 100,000 population report having raised their fees, while 65 percent of the cities between 50,000 and 100,000 report the same action.

Of the cities between 10,000 and 50,000 a lower 57 percent report having increased their fees and charges. This declining pattern by size of city may reflect a greater number of fees and charges employed by larger cities which in turn may be reflective of a larger range of activities and a high enough level of transactions to make it feasible to establish and maintain a fee collecting system. A more extensive "fee menu" also probably increases the odds that some of the fees will have their rates adjusted during the course of a year.

Upward adjustment of fees and charges also was more frequently employed by central cities (70 percent) and suburbs (67 percent) than by communities outside of metropolitan areas (50 percent).

Two other questions were asked about fees and charges: (1) whether new fees or charges had been implemented and (2) whether the special category of fees known as "impact or development fees" had been imposed or raised.

Starting to Charge New Fees

While two-thirds of the cities reported increasing the level of preexisting fees and charges during the past year a lower percentage, 37 percent, report that new fees or charges were implemented. Once again, "other factors" were the most frequently cited influence on the decision to implement new fees. Forty percent of the cities reported that the loss of General Revenue Sharing was influential in their decision. Sixteen percent of the cities cited a changed level of funding from their state government as influencing their decision to put new fees and charges in place.

Regionally, the western cities were more likely to have implemented new fees than cities in the other regions. Forty-three percent of the western cities report putting new fees in place followed in order by the South (37 percent), the Northeast (34 percent) and the Midwest (33 percent).

On a population size basis half of the responding cities over 100,000 population report that new fees or charges were implemented during the last year while 32 percent of the cities below 100,000 population report having taken the same action.

Thirty-nine percent of the central cities, and 36 percent of the suburban communities, report starting new fees in the last year.

Impact Fees

The third area of fees explored in the survey is that special classification known as development or impact fees. This family of fees gain their name because they are designed and structured to impose a portion of the incremental cost of new public facilities or services required by new development on this same new development.

For the most part such fees are imposed to defray the costs of infrastructure such as roads, sewer, water, drainage, parks, schools and fire stations. While fees and special assessments have long been imposed to help recover direct costs of on-site public improvements such as sewer and water laterals directly serving a property and the street and sidewalk directly fronting on a property, impact fees typically have a more ambitious objective.

While the design and objective of impact fees will differ from city to city they typically attempt to recover a significant share of the incremental central facility costs which will cumulate until major investments will be required. For example, while the construction of one new dwelling or a single commercial structure will not require the expansion of a sewage treatment plant or widening of a major road the incremental demand of numbers of such units will eventually require such major public investments. Impact fees are thus designed to charge each development project a prorated portion of the projected or already expended costs for such major central public facilities. In the simplest terms an impact fee can be termed a "buy-in fee". They are an attempt to incorporate into private development costs all the public investments which the private development will necessitate over time.

Twenty-four percent of the responding cities indicate that they have either imposed or raised impact fees during the last year. When asked to choose factors felt to be influential in this decision 37 percent cite the ubiquitous "other factors". Twenty-eight percent of the cities cite the loss of General Revenue Sharing as influential in their actions during the last year related to impact fees.

Since impact fees are predominantly charged to finance capital spending, it is interesting to note that 44 percent of the cities indicate that they have reduced capital spending and 64 percent of these cities indicate that the loss of General Revenue Sharing was influential in this decision. Since the loss of General Revenue Sharing appears to have been significant in decisions to reduce capital spending it is also not unreasonable to assume that many of the communities imposing or adjusting impact fees are looking to these fees to at least partially fill the capital spending gap left by the loss of General Revenue Sharing.

Changed levels of state funding are cited by 21 percent of the cities in their decision to take affirmative actions on impact fees during the last year. This may have a relationship to the significant role of state-shared revenues, particularly gas taxes – which are frequently dedicated solely to the financing of roads and other transportation improvements – in city capital spending decisions.

Cities in the western region report adjusting or implementing impact fees almost twice as frequently as communities in the other three regions.

While 39 percent of the western cities report taking this action in the last year only 25 percent of the northeastern cities, 20 percent of the southern cities and 13 percent of the midwestern cities report changes to their impact fees.

On a population size basis 37 percent of the cities from 100,000 to 300,000 report impact fee actions. In contrast, 20 percent of the cities in each of the other three size groupings report impact fee actions. This may be strongly related to the fact that 16 percent of the reporting cities in this size category are from California, a leader in the employment of such fees, as a result of strong population growth, limits on traditional taxing powers imposed by Proposition 13 and growth control efforts in some areas of the state.

Suburban communities appear somewhat more likely to have adjusted impact fees during the last year. Twenty-eight percent of the suburban cities report such actions in the last year, while 21 percent of the central cities and 18 percent of the non-metro communities report the same action.

Reductions in Operating and Capital Spending

Moving from the areas of fees and charges the second and third most often cited budgetary adjustments, after an upward adjustment of existing fees and charges, are actions on the expenditure side of the budget. Restraint in the growth of operating spending and reduction in capital spending are cited by roughly half of the cities. In contrast to adjustment of fees and charges, which can be very specific and targeted, these strategies of spending restraint or reduction tend to describe more extensive actions. This statement is not meant to minimize the fact that cities do set priorities in their spending decisions. This survey, however, did not gather information about the functional areas of spending which have been restrained or reduced.

Before discussing these major areas of budget adjustment it is probably useful to examine the relative share of city spending accounted for by operations and capital purposes. According to the most recent U.S. Census Bureau data, which are for fiscal year 1985-86, operating spending represented 70 percent of total city expenditures and capital expenditures 16 percent. The other 14 percent was composed of interest payments on debt, payments to other governments, and insurance and public welfare payments.

Reductions in Growth of Operating Spending

Since operating spending is such a large percentage of total city spending it is a logical area for budgetary action. This generalization is borne out by the respondents' answers: 55 percent of the cities report that they have reduced the growth rate in operating spending during the last year. In attributing factors influencing this restraint of operating almost identical proportions cite the loss of General Revenue Sharing (57 percent) and "other factors" (60 percent).

It may seem strange that city finance and budget officials are still citing the loss of General Revenue Sharing almost two years after the last funds were distributed under this program in September of 1986. It is important to remember that most city fiscal years end in the months of June and September, thus the 1987-88 fiscal year to which this question was aimed is the first fiscal year in which most cities received no General Revenue Sharing funds.

Almost one quarter of the cities cite "the loss of other federal funds" (23 percent) or "changed level of funding from the state" (23 percent) as being influential factors in this restraint of operating spending.

Regionally there is considerable consistency in the percentage of cities restraining operating spending. In the West, 63 percent of the cities are restraining operating spending growth, in the South, 57 percent, and in the Midwest, 54 percent. Only 34 percent of the northeastern cities report this spending restraint, but this result must be viewed very carefully because of a relatively small number of respondents.

By city type it appears that a slightly lower, though still high, percentage of suburban cities are exercising this type of operating spending restraint. While 47 percent, almost half, of the suburban cities report slowing the growth rate of operating spending 59 percent of the central cities and 58 percent of the non-metro cities report taking this action.

Over 60 percent of the cities over 100,000 population report this type of spending restraint and 56 percent of the cities between 50,000 and 100,000 also report this. Among the cities between 10,000 and 50,000 a lower percentage of cities (43 percent) report restraint in the growth of operating spending.

The overall finding this year is the same as that discovered in last year's fiscal survey which also discovered that 55 percent of the cities were slowing down the growth of operating spending.

Reduced Capital Spending

Reduction of capital spending is a strategy which has been employed in the past year by 44 percent of the responding cities. Almost two thirds (64 percent) of those taking this action characterize the loss of General Revenue Sharing as an influential factor. Loss of other federal funds is cited by 18 percent. Fifteen percent credit a changed level of state funding as having been an influential factor. "Other factors" are cited by 46 percent of the responding cities.

Regionally, 57 percent of the western cities report a reduction of capital spending, 51 percent of the southern cities, 36 percent of the midwestern cities and 21 percent of the northeastern cities.

A higher percentage of central cities report this reduction in capital spending, 49 percent, than either the non-metro communities at 40 percent or the suburban communities at 38 percent.

On a population size basis 40 percent of the cities over 300,000 report capital spending reductions, 55 percent of the cities between 100,000 and 300,000, 47 percent of the cities between 50,000 and 100,000 and 36 percent of the cities between 10,000 and 50,000.

To provide further analysis it would be useful to know the levels of capital spending which were in effect before the reductions were made. This would enable one to judge if the cuts were made from relatively high or low levels. Unfortunately information of this sort was not gathered in the survey.

In last year's survey, 52 percent of the cities reported a reduction in capital spending, but it is impossible to say if the drop to 44 percent can be attributed to already cutting this category of expenditure to a minimal level or whether the differences in the respondents cause this or whether alternative means of financing have been found.

Tax Rates

Five of the budgetary adjustments which the cities were questioned about involved taxes. Before reviewing the results in these areas it is once again useful to determine the relative importance of each of the major types of taxes imposed by cities. The most common tax employed by cities in the U.S. is the property tax. For the most recent year for which information is available, the Census Bureau reports that 49 percent of all city tax collections were derived from the property tax. For most American cities the percentage of reliance is much higher since they are precluded from using the income tax and to a lesser extent the sales tax.

Next in importance is the general sales tax which is quite widely used and contributes 18 percent of total city tax revenue.

The income tax accounts for 14 percent of total city tax revenue.

The use of the income tax is quite geographically concentrated in major communities like New York City and Washington, D.C., and in practically all municipalities in the heavily urbanized states of Ohio and Pennsylvania. The reliance in these areas would be higher while in most areas this type of municipal tax is not a factor.

Selective sales taxes, which would include such taxes as hotel-motel, restaurant meal, gasoline and admission taxes, contributed 11 percent of city tax revenue.

Other miscellaneous taxes contributed 8 percent.

What adjustments did cities in this survey make to these taxes?

Forty-one percent of the cities said they had increased their property tax rates during the last year. Only 8 percent of the cities said they had increased sales tax rates and only 1 percent or four cities said that they had increased income tax rates. Sixteen percent of the cities said that they had increased the rate of "other taxes", (other than property, sales or income) and 10 percent of the cities indicated that a new tax or taxes had been implemented during the last year.

Despite the political difficulty of increasing property tax rates two-fifths of the cities indicated this had been done in the past year. The percentage is even higher when those increasing property tax rates are computed as a percentage of those that indicated that their city was, "legally able to change the property tax rate levied for non debt purposes." When this condition is imposed half of the cities indicate that the city property tax rate has been raised in the past year.

Regionally, 77 percent of the northeastern cities indicate that their property tax rate has been increased in the last year. Roughly the same proportion of southern and midwestern cities which responded to the survey indicated that property taxes had been raised, 42 percent in the South and 41 percent in the Midwest. In the West, however, only 15 percent of the cities indicate that property tax rates have been increased.

A couple of explanations can be offered for these regional variations. The most important is the impact of the state constitutional provision in California enacted by the voters as Proposition 13.

This law precludes local jurisdictions from increasing property tax rates for non-debt purposes and originally precluded any new debt obligations supported by property tax revenue. Thus, California cities are prohibited from increasing property tax rates for operating purposes. Since 49 out of the 56 western cities responding to the survey were from California, this has a large impact on the results in the western region.

Confirming this interpretation is the fact that when only those cities in the West that indicate they can modify the property tax rate for non-debt purposes are considered, 33 percent of this western subset indicate that property tax rates have been increased.

While this percentage still does not approach the comparable national figure of 52 percent it does rise considerably.

Controlling for this legal capacity to adjust property tax rates does not produce a significant change in the percentages in the other regions.

No comparably strong explanation can be offered for the northeastern region. It may however be influenced by the fact that many northeastern cities and towns have responsibilities for financing educational and public welfare costs which are not typically assigned to municipal governments in most of the United States. The recent trend to emphasize educational programs, including enhanced school funding, may be an influence in this region, as city governments raise the monies generated in other parts of the country by independent school district governments.

In making judgments about the factors which were influential in making the decision to hike the property tax rate, 55 percent cite the loss of General Revenue Sharing, 22 percent cite changed levels of funding from the state, 14 percent cite the loss of other federal funds, and 69 percent attribute at least a portion of the blame to "other factors".

Dramatically lower percentages of the cities responding made any upward adjustment in their sales or income tax rates. Only 8 percent of the responding cities indicated that an upward adjustment had been made in the sales tax rate and only 1 percent indicated that income tax rates had been increased.

Two factors can explain a major portion of these two findings. First, in many states cities are precluded from utilizing these two tax sources, particularly the income tax. Second, in those states where the use of such taxes is authorized the tax may only be imposed at one "take or leave it rate". That is, a city may opt to levy a sales or income tax but if it does it may only be levied at one standard rate, no higher or lower. This rate cannot be changed unless the state law which governs the process is changed.

Only twenty-seven cities responding to the survey indicated that sales tax rates had been increased and only four indicated that income tax rates were increased.

Perhaps because other taxes are less often controlled by state statute and because other taxes tend to be more selective 16 percent of the responding cities indicate that the rates of some other taxes have been increased during the last year.

Thirty percent of the western cities indicate that they have increased the rate of such other taxes in the past year. Cities in the other regions trail in this practice as only 15 percent of the midwestern cities and 8 percent in each of the northeastern and southern regions have increased such taxes.

The larger the city the more likely the upward adjustment in the rates of these taxes is. Thirty-five percent of the cities over 300,000 have adjusted these taxes, 21 percent of the cities between 100,000 and 300,000, 15 percent of the cities between 50,000 and 100,000, and 7 percent of the cities between 10,000 and 50,000.

Central cities and suburban cities were more likely to raise the rates of these taxes, 19 percent and 14 percent respectively. Only one city located outside a metropolitan area indicated that rates of such other taxes had been increased in the past year.

Ten percent of the responding cities indicated that they had imposed some new tax during the past year. This action seems to have been most prevalent among the responding cities in the Midwest where 19 percent indicate this had been done.

The Municipal Work Force

Salary, wage and fringe benefit costs for municipal employees constitute a major proportion of municipal budgets so it is not surprising that actions to control these costs were also budget adjustment strategies pursued in a number of cities.

Twenty-five percent of the responding cities indicate that they have reduced the number of municipal employees during the past year. Twenty-two percent indicate that they have implemented some type of hiring freeze during the past year. Roughly one half of the cities taking either of these two actions indicate that the loss of General Revenue Sharing funds was an influential factor in this decision.

Fifty-two percent of those reducing municipal personnel indicate that the loss of revenue sharing was influential, 62 percent credit "other factors", 22 percent the loss of other federal funds and 20 percent changed levels of funding from their state government.

Reductions in city personnel appear to have been most common in the midwestern and southern communities. Thirty-two percent of the midwestern cities indicate that the number of personnel have been reduced, 27 percent of the southern cities also indicate that this has been done. The same action has been taken in lower percentages of northeastern (19 percent) and western (18 percent) cities.

The responses suggest that work force reductions have some relation to size of city with higher percentages of the larger communities indicating such adjustments. Reductions have been made by 38 percent of the cities over 300,000, by 34 percent of the cities between 100,000 and 300,000, by 26 percent of the cities between 50,000 and 100,000 and by 16 percent of the cities between 10,000 and 50,0000. Central cities and those outside metropolitan areas also tended to make this adjustment more frequently than suburban cities. While 35 percent of the central cities reported reductions and 23 percent of the non-metro cities reported the same only 14 percent of the suburban communities indicated that they had done this.

Contracting, Service Levels, and Shifting Service Responsibilities

Thirty-five percent of the responding cities indicate that some city service has been contracted out during the past year. While 18 percent of the cities taking this action indicate that the loss of revenue sharing influenced this action, the largest percentage (81%) indicate some "other factor".

Provision of city services by contracting rather than by direct provision using city personnel is a much discussed and studied current trend. Among the cities responding to this survey the western and southern communities were more likely to have contracted for services in the past year than cities in the other two regions. While 48 percent of the western and 34 percent of the midwestern cities indicate contracting only 28 percent of the midwestern and 26 percent of the northeastern cities indicate that they have done this.

Related to contracting is the complete or partial shifting of selected service responsibilities to another government. This is similar to contracting in that another party than the city produces the service but is different because under a service shift the city relinquishing the service also relinquishes financial responsibility for it. An example would be for a city to relinquish public health responsibilities to the county government. Such a shift may be accompanied by dedicated tax or user fee revenues. Because the use of this tactic was so infrequently reported no generalizations on a population size, city status, or regional basis appear appropriate.

The last budget adjustment action to be discussed is a reduction in city service levels. This may be the result of explicit decisions to save costs, for example shortening library hours, reducing the frequency of street sweeping or trash pickup. On the other hand it may simply be the recognition that staff reductions and other cuts have reduced the city's capacity to respond at a rate faster than increased productivity can cover for.

Fourteen percent of the cities report that service reductions have been made in the last year. The data do not allow a judgement about which of the two types of service reductions listed above these have been. It is probably safe however, to say that both have occurred and are reflected in these responses.

Forty-four percent of those reporting service reductions say that the loss of General Revenue Sharing was a factor. Twenty-six percent attribute these service reductions to the loss of other federal funds and 26 percent to changes in funding levels from the state government. Most of the cities (85 percent) attribute at least part of the cause to "other factors".

Summing Up

In conclusion, despite state-imposed restrictions and limits city governments have been very active in making budget adjusting actions on both the expenditure and revenue sides of the budget.

IV. CITY PERSONNEL

One of the largest cost elements in the provision of city services is the employment of personnel. While there have been moves by some city governments to contract out or "privatize" services, the levels of city employment and changes in municipal employment still serve as indicators of a city government's ability to provide services.

The surveyed cities were asked to provide a three-year history of municipal employment. Before reviewing the survey responses, it is useful to review the recent history of municipal employment as documented by the U.S. Census.

TABLE IV-1
TOTAL CITY EMPLOYMENT (in thousands)

Year	Number	Year	Number
1975	2,506	1981	2,469
1976	2,443	1982	2,379
1977	2,469	1983	2,423
1978	2,511	1984	2,434
1979	2,553	1985	2,467
1980	2,561	1986	2,494

As the preceding table shows, there was a fairly steady rise in the total number of individuals employed by municipal governments from 1976 until 1980, when a two-year decline began. According to these statistics, total city employment (both full and part time) in 1986 was still below the level which existed in 1975.

Changes in employment over this period have varied by city size. For example, while overall city employment, from 1980 through 1986, was down 2.6 percent, the cities over 300,000 population actually saw a 2.2 percent increase. Those cities between 50,000 and

300,000 population saw a 10.9 percent decline, while cities under 50,000 experienced a 1.8 percent decrease.

There is also significant variation among cities within the same population class; for example, while San Antonio showed a 24 percent increase in city work force over this period, Detroit's employment decreased 6 percent. There are a number of factors which can contribute to variations like these, including differing patterns of population growth and annexation practices, as well as differing mixes of full and part-time employees.

The ratio of employees to population also varies from city to city. For example, while San Antonio's municipal employee growth rate far outdistanced Detroit's decline, Detroit's ratio of city employees per 1,000 residents still stands 38 percent higher in 1986 than San Antonio's (18.7 full time equivalent employees per thousand in Detroit, compared to 13.6 full time equivalent employees per thousand population in San Antonio).

The mix of municipal employees also differs by city size class. Overall, while just over 1.3 percent of the United States' 19,000 municipalities operate school systems, education employment is almost 18 percent of total municipal employment, outdistancing police employment which stands at 16 percent.

A similar pattern, a small number of larger jurisdiction providing the service and accounting for the bulk of the employment in the function,also exists in the provision of hospitals and public welfare services. It is, perhaps,more instructive therefore to look at the mix of municipal employment by removing education, hospital and public welfare functions so that the figures are more comparable across different population size classifications. The figures which follow are all reported after this adjustment.

When these adjustments are made the largest categories of municipal employment are in police and utility functions. Twenty-three percent of all municipal employees are police employees, also with 23 percent is the combined category of sanitation, sewerage,and municipal utility workers. General administration (including finance) and fire protection represent 11 percent each.

On ~~a~~ population size basis, the largest cities (those over 300,000 population) have 100,000 more employees (non-education, hospital and public welfare) as all cities under 50,000.

TABLE IV-2
TOTAL MUNICIPAL EMPLOYMENT BY CITY SIZE

City Population	October 1986 Total Employees	Percent of Total
300,000 and over	691,979	41
50,000 to 299,999	404,125	24
under 50,000	590,679	35
Total	1,686,783	100

When the mix of municipal employment is evaluated on a population size basis, the following pattern emerges:

TABLE IV-3
PERCENTAGE COMPOSITION OF MUNICIPAL WORK FORCES BY CITY POPULATION

	In Cities over 300,000	In Cities from 50,000 to 299,999	In Cities Under 50,000
Fire	10	15	10
Administration	9	10	13
All Other	27	26	17
Police	22	22	26
Transportation	7	8	11
Utilities	25	19	23
	100	100	100

Administration becomes a progressively, larger proportion of the city work force as the population declines. This may reflect the more centralized support functions in smaller cities, while in larger communities, administrative functions are carried out at a department level with administrative positions being reported in the functional categories. The "all other" category decreases in size as the city size decreases, and this fits the generally expected pattern of greater variety of services offered in the larger cities. The other areas exhibit a fairly consistent share of employment, regardless of city size, when divided into these major categories.

What Did The Survey Find?

This survey, while it cannot claim the comprehensiveness of the Census data, can offer some clues to the changes in municipal employment since October 1986, the latest Census data that is available, and which formed the basis of the preceding discussion.

Cities were asked to provide a three-year history of municipal employment. The three years specified were the city's fiscal year ending in 1986, fiscal year ending in 1987, and the fiscal year which has or will end in 1988.

TABLE IV-4
MUNICIPAL PERSONNEL CHANGE PERCENTAGE OF CITIES REPORTING CHANGES

	1986 to 1987	1987 to 1988
Decrease	24	24
Held Constant	21	19
Increase	55	57
	100	100

The first finding, which emerges in both time periods, is that one-fourth of the cities are reducing the number of personnel. Roughly one-half of the cities are just holding constant or reducing levels of employment. At the same time, slightly more than one half of the cities are making some additions to the municipal work force. There is a great deal of consistency between the two time periods. This consistency remains even if one allows for a 5 percent variation in employment levels.

TABLE IV-5
MUNICIPAL EMPLOYMENT PERCENT OF CITIES REPORTING CHANGES

Change in City Employment	1986 to 1987	1987 to 1988
Decline more than 5%	5	7
Between -5% and +5%	82	81
Increase more than 5%	13	12
	100	100

When regional and size classification are added to the analysis the following distributions are revealed.

TABLE IV-6
PERCENT OF CITIES REPORTING DECLINES IN MUNICIPAL EMPLOYMENT

Region	1986 to 1987	1987 to 1988
Total	24	24
Northeast	27	16
Midwest	30	28
South	25	24
West	13	24

Just as the total figures for the two years are consistent, so the regional figures are reasonably consistent. In comparing the two time periods cities in the Northeast appear to have been less prone to reduce employees in the 1987 to 1988 time period, than in the year before, and cities in the West more likely. On a population size basis, once again, there is a high degree of consistency between the two time periods.

TABLE IV-7
PERCENT OF CITIES REDUCING EMPLOYMENT WITHIN EACH POPULATION CLASS

Population Size	1986 to 1987	1987 to 1988
Total	24	24
over 300,000	21	21
100,000 to 300,000	16	24
50,000 to 99,999	31	27
10,000 to 49,999	22	22

When cities which are increasing employment are examined on a regional basis, one again sees relative consistency between the two periods. The northeastern cities were more likely to have added employees last year than in prior period and the western cities less likely.

TABLE IV-8
PERCENTAGE OF CITIES BY REGION REPORTING INCREASED CITY EMPLOYMENT

Region	1986 to 1987	1987 to 1988
Total	55	57
Northeast	41	59
Midwest	45	49
South	56	58
West	72	62

When examined on a population size basis,once again, there is a consistency between the two time periods.

TABLE IV-9
PERCENTAGE OF CITIES IN EACH POPULATION SIZE CLASS REPORTING INCREASED CITY EMPLOYMENT

Population Size	1986 to 1987	1987 to 1988
Total	55	56
over 300,000	65	67
100,000 to 300,000	66	54
50,000 to 99,999	54	58
10,000 to 49,999	47	54

The preceding tables illustrate that the conservative practices in municipal hiring continue. The impact of reduced federal funding, as well as the cost pressures added by personnel mandates imposed on cities by the federal and state governments, will continue to exert pressure to restrain future growth in the municipal work force.

APPENDIX

CITIES RESPONDING TO 1988 FISCAL CONDITIONS SURVEY

ALABAMA
Dothan
Enterprise
Montgomery
Mountain Brook
Selma
Tuscaloosa

ALASKA
Anchorage

ARIZONA
Glendale
Mesa
Phoenix
Scottsdale
Tempe
Tucson

ARKANSAS
Fort Smith
Little Rock
Pine Bluff
West Memphis

CALIFORNIA
Anaheim
Arcata
Cathedral City
Cerritos
Commerce
Concord
Corona
Cudahy
Cupertino
Daly City
Danville
El Centro
El Monte
Escondido
Garden Grove
Glendale
Inglewood
Irvine
La Mesa
Lakewood
Long Beach
Los Angeles
Millbrae
Montebello
National City
Newport Beach
Redwood City
Richmond
Riverside
Sacramento
Salinas
San Diego
San Dimas
San Fernando
San Francisco
San Luis Obispo
San Pablo
Santa Ana
Santa Barbara
Santa Clara
Santa Monica
Selma
Simi Valley
Sunnyvale
Torrance
Vallejo
Visalia
West Covina
Whittier

COLORADO
Arvada
Colorado Springs
Denver
Fort Collins
Grand Junction
Greeley
Lakewood
Sterling
Westminster

CONNECTICUT
East Hartford
Fairfield
Guifford
Hamden
Ledyard
New Britain
Newington
Stamford
Vernon
West Hartford

D.C.
Washington

FLORIDA
Clearwater
Daytona Beach
Fort Lauderdale
Jacksonville
Largo
Leesburg
Lighthouse Point

North Miami
Orlando
Palm Bay
Pembroke Pines
Plantation
Rockledge
Tampa
Temple Terrace

GEORGIA
Albany
Atlanta
East Point
Macon
Savannah

HAWAII
Honolulu

ILLINOIS
Arlington Hts
Aurora
Bloomingdale
Chicago
Decatur
Evanston
Hazel Crest
Highland Park
La Salle
Mount Prospect
Mundelein
Normal
Northbrook
Oak Lawn
Peoria
Springfield
Urbana

INDIANA
Evansville
Indianapolis
Merrillville
Munice
Terre Haute

IOWA
Cedar Rapids

Council Bluffs
Des Moines
Iowa City
Sioux City
Urbandale
West Des Moines

KANSAS
Atchison
Kansas City
Liberal
Manhattan
Overland Park
Topeka

KENTUCKY
Frankfort
Jeffersontown
Louisville
Newport
Owensboro
Winchester

LOUISIANA
Baton Rouge
Bossier
Lafayette
Lake Charles
Monroe
Natchitoches
Ruston
Shreveport

MAINE
Brunswick

MARYLAND
Baltimore
College Park
Hyattsville

MASSACHUSETTS
Boston
Gardner
Methuen
Southbridge
Weston

MICHIGAN
Ann Arbor
Bay City
Dearborn
Detroit
Farmington Hills
Ferndale
Kalamazoo
Melvindale
Midland
Monroe
Roseville
Royal Oak
Saginaw
St. Clair Shores
Sterling Heights
Taylor
Troy
Wayne

WYOMING

MINNESOTA
Brainerd
Columbia Heights
Mankato
Minneapolis
Rochester
Saint Cloud
White Bear Lake

MISSOURI
Belton
Columbia
Independence
Joplin
Maryland Heights
Saint Joseph
Saint Louis
Springfield

MONTANA
Helena

NEBRASKA
Omaha

NEVADA
Las Vegas
Reno

NEW HAMPSHIRE
Claremont

NEW JERSEY
Bayonne
Bridgewater
Edison
Haddonfield
Newark
Parsippany
Saddle Brook
Vineland
Woodbury

NEW MEXICO
Albuquerque
Farmington
Roswell
Santa Fe

NEW YORK
Buffalo
Gates
Glens Falls
Lakawanna
Mount Vernon
New Rochelle
New York
Rome
Rye
Saratoga Springs
Schenectady
Troy

NORTH CAROLINA
Asheville
Durham
Fayetteville
Greensboro
High Point
Laurinburg
Raleigh
Winston-Salem

NORTH DAKOTA
Fargo
Jamestown

OHIO
Akron
Centerville
Cincinnati
Cleveland
Cleveland Hts.
Columbus
Dayton
Kent
Kettering
Mount Vernon
Parma
Toledo

OKLAHOMA
Lawton
Midwest City
Norman
Tulsa

OREGON
Beaverton
Eugene

Grants Pass
Hillsboro
Lake Oswego
Portland
Roseburg

PENNSYLVANIA
Aliquippa
Altoona
Aston
Bethlehem
Erie
Falls
Havertown
Kingston
Lower Merion
Lower Paxton
Penn Hills
Reading
Ridley
Upper Darby

RHODE ISLAND
Pawtucket

SOUTH CAROLINA
Charleston
Laurens

SOUTH DAKOTA
Brookings
Yankton

TENNESSEE
Clarksville
Dyersburg
East Ridge
Germantown
Memphis
Millington
Nashville

TEXAS
Allen
Amarillo
Arlington
Austin
Beaumont
Brownwood
Bryan
College Station
Copperas Cove
Corsicana
Dallas
De Soto
Deer Park
Farmers Branch
Galveston
Garland
Grand Prairie
Grapevine
Henderson
Houston
Huntsville
Irving
Killeen
Longview
Lubbock
McAllen
Mesquite
Midland
Plano
Port Arthur
Richardson
San Antonio
Uvalde
Waco
Wichita Falls

UTAH
Cedar City
Ogden
Orem
Sandy

VIRGINIA
Chesapeake
Danville
Roanoke
Virginia Beach

WASHINGTON
Bellingham
Kennewick
Seattle
Spokane

WEST VIRGINIA
Charleston
Moundsville
Parkersburg

WISCONSIN
Fitchburg
Green Bay
Madison
Middleton
Milwaukee
Oshkosh
Wauwatosa
West Allis
Wisconsin Rapids

About The National League of Cities

The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and more than 1,300 cities directly and, through the membership of the state municipal leagues, more than 16,000 cities indirectly.

NLC serves as an advocate for its members in Washington in the legislative, administrative, and judicial processes that affect them; develops and pursues a national urban policy that meets the present and future needs of our nation's cities and the people who live in them; offers training, technical assistance and information to municipal officials to help them improve the quality of local government in our urban nation; and undertakes research and analysis on topics and issues of importance to the nation's cities.

NATIONAL LEAGUE OF CITIES
1301 Pennsylvania Avenue NW
Washington, D.C. 20004
(202) 626-3000